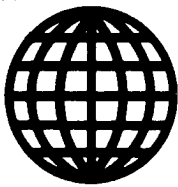


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12 APRIL 1989



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# ***JPRS Report***

## **China**

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# China

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## NORTHEAST ASIA

### Trends in Japanese Arms Buildup, Military Strategy

40050328 Hong Kong CHING PAO [THE MIRROR]  
in Chinese No 2, 10 Feb 89 pp 78-80

[Article by Ling Huyan 0109 3698 5888: "Trends in the Development of Japanese Military Might and Strategy"]

[Text] *Japan's defense spending has entered the "forbidden area," exceeding one percent of the nation's GNP for 3 straight years, and evidencing an uncontrollable desire for arms buildup. This buildup is gradually moving toward exceeding the limits set forth in the postwar "peace constitution" and the U.S.-Japanese Mutual Defense and Assistance Agreement of 1954, both of which restricted the Japanese military to self-defense. And Japan is now looking for ways to extend her military might into Asia and even more distant places.*

According to the figures issued by the Japanese government in mid-January this year, Japan's defense budget for 1989-1990 will be approximately 3.9 trillion yen (\$30 billion), an increase of six percent over the previous year and thus the third straight year defense spending has entered the "forbidden area," excess of one percent of Japan's GNP.

In addition, ASAHI SHIMBUN, YOMIURI SHIMBUN, and NIHON KEIZAI SHIMBUN recently disclosed that Japan's Defense Agency and the U.S. military headquarters in Japan will study the following issue: "How shall Japan and the United States fight together should crisis arise in the Far East or globally?" This study reportedly will be conducted by Japanese-American military experts, outside of normal Japanese-American diplomatic channels and beyond purview of the Japanese media. The close attention devoted by major Japanese newspapers toward this new trend in "joint study" indicates that the matter is of extraordinary import.

Both of these developments are occurring just as East-West relations are relaxing. China is reducing her one million man army, the Soviet Union announces that she will cut her armed forces stationed in the Far East by 200,000, and "hot spots" throughout the world are cooling. Thus the trend in Japanese military spending runs counter to the general relaxation in global relations and thus cannot but arouse concern and anxiety.

### There Are All Kinds of "Justifications" for the Buildup

As is commonly known, Japan's postwar "peace constitution" prohibits that nation from maintaining a formal army and permits only the establishment of a military force that "is strictly limited to self-defense," which thus must pursue a "strategy of destroying the enemy internally," meaning that the force may not leave Japan's gate. Hence the "peace constitution" clearly provides

that Japan will never again be a military power. In 1976, the Mimoto Miki cabinet, in an effort to manifest this spirit, to abide by the wish of the vast majority of Japanese for peace, and to forestall fear both at home and abroad of a revival of Japanese militarism that an overly rapid rise in military spending might provoke, established the principle that defense spending must not exceed one percent of Japan's GNP. Both the succeeding Ohira and Suzuki cabinets abided by this principle.

The situation began to change in January 1987, however, when the Nakasone cabinet decided to replace that principle with the total spending targets embodied in the "Medium Term Defense Force Reorganization Plan," whereupon defense spending reached a level equal to 1.004 percent of the GNP in 1987 and went even higher in 1988, to 1.013 percent, a record for the postwar era. The justification the cabinet advanced for this hike was that Japan, threatened by Soviet military might, had no choice but to strengthen her defense so as to respond to international tension.

If there might have been some "justification" for the Nakasone hike, what justification can the Takeshita cabinet have for continuing the increase now that, since the beginning of 1988, dialogue has replaced confrontation on the world stage, international and East-West relations have relaxed significantly, and, especially importantly, dialogue between the United States and the Soviet Union is gaining momentum, all of which trends Japan affirmed in her August 1988 white paper?

Well, it seems that there is such "justification," which the Japanese press has described as follows. Once in office, the new American administration under George Bush is expected to increase pressure on Japan to assume more of the burden for her defense. Bush has appointed James Baker, who used to be responsible for American economic policy as treasury secretary, secretary of state; and the United States is pursuing a strategy integrating politics, military affairs, and economics; so Japan must earnestly strive to increase her defense spending. And so on, and so forth.

In addition, the Japanese cabinet argued in the 1988 defense white paper that, while changes certainly are occurring in East-West military confrontation, the cold reality that global peace and stability still depend on balance of power has not changed; asserted that, while the Soviet Union is pursuing reform and seeking to improve her relations with other nations, her military might continues to grow; and stressed that, as a free nation that has achieved astonishing economic development, Japan now bears unprecedented responsibility in the international community and must fully recognize her growing obligation to enhance defense.

The great effort the Japanese cabinet has made to increase military spending and to continue military buildup has been sharply criticized domestically. The Socialist Party has proclaimed resolute opposition to the

government's basic "disregard of the global trend toward disarmament" and effort to share a new offensive "maritime strategy" with the United States. The Komeito Party stated that it is very regrettable that the white paper "did not declare that Japan should actively contribute to global disarmament and arms control." In fact, this, completely contradicts the goal proclaimed by the Takeshita cabinet of "contributing to peace."

### **Using the United States as a Shield for Military Buildup**

However, the steady rise in Japan's military spending and her steady military buildup is related to American encouragement, which fact Japan is exploiting so as to use America to shield her buildup. After World War II, the United States and Japan signed a security treaty under which the United States for many years undertook to guarantee Japan's security, while the latter vigorously developed her economy. However, faced with serious double deficits budgetary and trade, the United States in recent years has demanded that Japan do more to defend herself. The most recent example of this occurred last year, when then Secretary of Defense Frank Carlucci, during a visit to Tokyo, urged Japan to continue her military buildup. Though stating that the United States did not want Japan to increase sharply her military might, he did indicate: "The United States cannot complain about how Japan employs her defense outlays if Japan increases her defense spending to three percent of her GNP." While, as a representative of the U.S. government, Carlucci opined that Japan's military strength should not be shifted from a defensive to an offensive posture, he also stressed that Japan must strengthen her defense capabilities and support American forces stationed in Japan. His assistant explained: "We are very pleased with the hike in Japan's defense spending and with the devotion she is showing toward her defense, but at the same time we must also press her to do a little more." Although slightly dressed up, Carlucci's words clearly were designed to urge Japan to build up more. And, especially importantly, his statement that "the United States will not complain" "if" Japan's defense budget is equal to three percent of her GNP clearly aimed at inducing Japan to go all out in raising her military spending; the one percent level is way below the mark!

Carlucci's statements provided Japan with just the shield she needed. After Carlucci departed, Japan Defense Agency Director General Tsutomu Kawara delivered a speech in which he stressed that Japan should strengthen her defenses and increase her military spending and stated that "Under the current approach, it is all right for Japan to surrender to foreign invasion. But if we are to defend freedom and things of value, we should not begrudge defense spending." In its commentary, Jijisha stated that what Kawara actually was arguing was that Japan's defense spending not be restricted.

With the United States facing huge budgetary and trade deficits and thus having to cut her defense spending, the U.S. House Armed Services Committee subcommittee on defense, in discussing the defenses of American allies, stated 5 January this year that Japan's defense capability and contribution remain insufficient and emphasized that, to protect sea transport within 1,000 nautical miles of her shores, Japan must ensure that she has sufficient capability to seal off three straits even in the absence of American assistance. Clearly, Japan has the blessing of the United States to go all out in increasing her military spending and in her military buildup and now has an excuse once again to permit her defense budget to exceed one percent of her GNP. Nevertheless, there is concern that one day Japan may use the Americans' statement that the United States "will not complain" if Japan increases her defense spending to three percent of her GNP as an excuse to reach or exceed that level. When that day comes, it is hard to imagine how great Japan's military strength might become and what the consequences of such a buildup might be.

### **Uncontrollable Desire for Military Buildup**

In fact, however, even without American abetment, Japan, following the tremendous growth in her economic might, is unwilling to see her military restricted to "self-defense" and wants to begin developing an offensive capability. American demands merely push the boat along with the current. And several years ago, when the one-percent limit was exceeded, Nakasone said that "to enhance Japan's say in world politics, we must expand not only her clout as an economic power but also her influence as a political power." As everyone knows, to be powerful politically a nation must backup its economic strength with military clout. Thus in the past several years a number of big Japanese enterprises have begun to push for military buildup, some scholars have said that Japan should play diplomatic and military roles that are commensurate with her economic might, and some people have even argued that Japan "should have had nuclear weapons long ago" and declared that the question no longer is whether but how and when Japan should establish a strong defense.

Significantly, Japanese financial and economic circles are not just talking about these issues but are actively involved in military affairs. The clearest example of this is the fact that Japanese financial circles have shed their previous "evasiveness" on defense policy and formally taken center stage and become involved in defense issues. In addition, the famous Mitsubishi Heavy Industries participated in bidding for the United States' "Star Wars" program, thus marking the beginning of Japanese involvement in the program.

Last June, the Keizai Doyukai [Japan Committee for Economic Development], which is very influential in Japanese financial circles, decided to establish a "Japanese Security Research Association," which is "to study policy and make policy proposals" and which formally

inaugurated its work with a meeting attended by the director of the Defense Agency defense bureau. The Keizai Doyukai clearly wants to accelerate development of Japan's defense capability, and the reason that organization decided to get involved in defense issues reportedly stems from its concern about the economic difficulties the United States is suffering due to her defense spending and her trade deficit and about American dissatisfaction with Japan's defense posture. The YOMIURI SHIMBUN has stated that the decision by Japanese financial circles, which always used to eschew involvement in defense issues because they "feared creation of unnecessary threats to Japan's Asian neighbors," to abandon this approach and to formally participate in the issues "will attract widespread attention and evoke much comment." And some observers point out that since the circles, which wield vast financial resources, were still ducking defense issues when the military budget began to exceed one percent of the GNP and their involvement is new and will engender a qualitative change in Japan's "defense" such that she will gradually shift from an economic to a military power. This possibility cannot be ruled out.

Furthermore, the DAILY TELEGRAPH, of England, reports that large Japanese firms are very active in arms research and development. Arms production accounted for 18 percent of Mitsubishi Heavy Industries' total operating revenues in 1987, and the firm is preparing to step up weapons production so that it will reach 25 percent of total revenues. For Kawasaki Heavy Industries, arms sales accounted for 17.5 percent of total operating revenues in 1986 and rose to 30 percent in 1988. And Nissan Motor Co., whose arms production currently accounts for only 1 percent of total sales, plans to increase the share to 10 percent. A striking feature of Japan's arms production is that it is moving toward cutting edge technology, with guided missiles being a priority in research and development. Mitsubishi has developed and produces air-to-ship and land-to-ship missiles, Kawasaki is producing anti-tank missiles, and Toshiba Corp has developed short-range surface-to-air missiles that can be used to protect airports. Another feature is the gradual involvement of firms engaged in "civilian production." For example, Nissan Motor Co., mentioned above, has explicitly incorporated "arms production" into the corporation production plan, thus shifting from quiet to open production of weapons. This move shows that companies engaged in civilian production are no longer afraid to produce weapons, a development that will spur a new leap forward in Japan's military industrial production.

Another significant development is the participation of Mitsubishi Heavy Industries in bidding for the American star wars program. As everyone knows, Mitsubishi is a large, rich Japanese conglomerate that was famous for arms production prior to World War II. Now the firm has contracts with other famous Japanese companies, such as Hitachi, Fujitsu General, and NEC (Japanese electronics), so once Mitsubishi begins accepting American orders, a number of big Japanese firms will also become involved. Economic benefits aside, there is no doubt that participation in the star wars program will pave the way for Japan to get hold of the newest military technology in existence. And when that happens, it is clear what will become of Japan's military might.

#### **A Major Revision of Defense Strategy**

At the current rate, Japan's military buildup will gradually exceed the limits set forth in the postwar "peace constitution" and the 1954 U.S.-Japanese Mutual Defense and Assistance Agreement, both which restricted Japan's military to defense against invasion and to protection of national territory. And the plans Japan is studying and preparing to put into effect are already focusing on ways to extend Japanese military might beyond the nation's territory into Asia and to even more distant places. The Japanese Defense Agency recently disclosed that the scope of American-Japanese joint military operations is to be changed. The 1984 study conducted by Japan and the United States was limited to "events occurring in Japan alone," whereas the current study will be focused on "multiple crises." Military commentators believe that this latter term refers to wars that might break out simultaneously in areas outside of Japan, on the Korean peninsula, in other regions of the Far East, or in the Mideast. If true, that would mean that Japan's military operations will expand to cover the entire globe. In addition, the Japanese Strategic Studies Center has issued a report entitled "Defense Strategy and Future Issues," which calls for a reinterpretation of Japan's right to self-defense, a revision of the "three bans on nuclear weapons," and permitting nuclear warships to dock in Japan and pass through her territorial waters. This constitutes a major revision of Japanese strategy. Furthermore, the Japanese Air Self-Defense Force has decided, beginning March 1989, to carry out its largest reorganization since 1954. The reasons cited for this move are "difficulties concerning unified command," the need to "place greater emphasis on functionality," and the need to correct "inefficiency and rigidity." But the real goal is to increase the force's offensive combat capability so as to pursue and attack enemy fighters. Once this revision is effected, it is doubtful that much will be left of the principle of "strict limitation to self-defense."

**Wang Ruowang on Political Reform**  
40050200 Hong Kong CHIUSHIH NIENTAI [THE  
NINETIES] in Chinese No 227, Dec 88 pp 65-75

[Interview with Wang Ruowang 3769 5387 2598 by  
CHIUSHIH NIENTAI reporter Chen Yige 7115 0001  
2047 in Shanghai in mid-October: "One-Party Dictator-  
ship Must Be Replaced by Multi-Party Rule"]

[Text] *Foreword by the Editor*

Of the three intellectuals expelled from the party in the anti-bourgeois liberalization movement early last year, Liu Binyan [0491 6333 7159] and Fang Lizhi [2455 0536 0037] have successively been given permission to leave the country. Their arrival in Hong Kong last August and September created quite a stir. Only Wang Ruowang seemed to be "left out in the cold." This March the Chinese Democratic Education Fund of California, United States, awarded Wang Ruowang the outstanding democratic personality award, but the CPC's travel ban on him prevented him from receiving the award in America. He lived a quiet life in Shanghai. The outside world heard nothing of his latest situation. Nor did he publish any articles. Only in early November did he make his first public appearance at the Writers Congress meeting in Beijing.

Before he left for Beijing to attend the writers' congress meeting, our reporters went to Shanghai in mid-October to interview him and talked with him at length about the present situation in China. For more than a year, Wang Ruowang had been thinking long and hard. He still has a close interest in China's political future. With the issue of political structure prompted by the question of prices as an opener, he expressed his ideas extensively. After the long talk, Wang Ruowang wrote down the conversation and gave it to Chen Yige for publication in Hong Kong.

As a "dissident" in the eyes of the Chinese Communist power-holders and someone who has been expelled from the party, Wang Ruowang had sharp words for one-party autocracy. His talk about thorough political reform presumably will not be accepted by the CPC any time soon. However, his ideas are typical of the aspirations of elderly cadres and intellectuals still anxious to save the nation and the people.

The interview took place in Wang Ruowang's home in mid-October.

**"One-Party Dictatorship" Is Doomed**

[Chen Yige] In announcing your bourgeois liberalization ideas, the Chinese Communists mentioned that you called for multi-party rule in a speech. Can you elaborate on that?

[Wang Ruowang] This is a major issue and a very sensitive one. In this country of ours, so-called sensitive issues often make party leaders nervous and angry.

Whoever says something different is bound to suffer. Also, the more untouchable a topic, the more important and urgent it is. You have raised just such a topic.

When we say "political democratization," we mean direct elections, general elections, separation of powers between the three branches of government, parliamentary politics and something else, namely allowing a variety of political organizations—political parties and public groups—to participate in politics and run in elections freely and on an equal basis. This is called party politics in short. The constitution of every country in the world safeguards the citizen's freedom of speech, freedom of the press, freedom of assembly and association, and so on. The word "association" here includes political parties. This is a significant achievement of the bourgeois revolution, one which has been through a couple of centuries of practice and many ups and downs. Many countries have benefited from it and suffered from the lack of it. Many books have summed up the experience here. I reached this conclusion after reading them: The proletarian party rose to power on its opposition to autocracy and one-party dictatorship and will finally be doomed by one-party communist rule and personal dictatorship.

[Chen Yige] How did you arrive at this conclusion? Is it not a little alarmist?

[Wang Ruowang] At this late hour, I am afraid nothing short of drastic remedies would work. So what if this really sets off an alarm bell? The point is any "alarmist talk" must be based on scientific, factual analysis.

Constantly worried that a film or a novel would bring down the party and the nation, Mao Zedong kept a close watch on literature, art, and cultural and education propaganda departments. He did say that the CPC too would perish one of these days, but what he did not realize was that it was precisely his wilfulness, his despotism, and his use of violence to eliminate all dissidents and opposition (imaginary class enemy) that reduced a huge party to a mere name for 8 years and subjected the nation to the threat of losing its place in the world community.

It is all too clear when we look back at world history in the past century. Capitalist nations practice multi-party politics and allow the legitimate existence of communist parties. Both the First International and Second International were headquartered in Western Europe. Never has a proletarian party succeeded in seizing power in a Western European nation. Yet it is in countries which practiced one-party dictatorship or drove the communists underground—first Russia, then China—that the communists successfully seized power. The victory of the communist parties in these two nations certainly each had its unique characteristics, but the two countries

were still in the pre-capitalist stage as far as economic development is concerned. Common to both of them is an absence of a democratic political tradition. This is exactly what favored the growth of one-man rule and personal autocracy (Both Toynbee and Fairbanks made this point in their works.)

The sharp contrast above illustrates one point: the democracy of the capitalist regime has proved to be a smart and intelligent political leadership system. It successfully regulates class conflicts and gives all political parties the right to compete and operate freely on an equal plane, an advantage absent from socialist nations under proletarian dictatorship. Indeed, socialist countries consider such a system an reactionary thing and have firmly kept it at arm's length.

The fierce confrontation between the two camps took up 70 years of the history of the 20th century. Strangely enough, the socialist camp under Stalin allied itself with the evil Hitler on the eve of World War II while befriending the Japanese military in the East, signing with them a mutual non-aggression treaty. Did Stalin fall for the "National Socialists' " espousal of socialism and therefore consider them fellow travelers? No materials exist today to support this. In terms of political structure, however, both countries rejected the capitalist democratic system and practiced one-man dictatorship. In China, Mao Zedong followed in their footsteps. Politically, he was a flashback to Hitler and Stalin. This set the stage for a complicated tragic historical phenomenon. In the Soviet Union, Stalin's atrocities of unparalleled brutality were laid bare and criticized and he was compared to Hitler. In China, the Cultural Revolution, personally launched by Mao Zedong, was referred to as the "gang of four's fascist dictatorship."

#### **Destroy the Mousetrap, Let Loose the Careerists**

[Chen Yige] Why did socialism inevitably go down the road of personal dictatorship after victory?

[Wang Ruowang] In the first few years after the proletarian revolution triumphed, both China and the Soviet Union were a picture of prosperity, brimming with hope and vitality. As soon as the worker-peasant regime consolidated its position, however, it turned its guns on party veterans, intellectuals, and wealthy peasants. This was a throwback to what invariably happened after every peasant uprising succeeded in history. After seizing power, the leadership of the communist party also went down its ancestors' beaten track.

There is something even more important. Marxism-Leninism calls for smashing the bourgeois state machinery and creating a brand-new regime based on proletarian dictatorship, rejecting the democratic political system and the principle of the rule of law, both of which have proven to be effective after over a century's practice in capitalist nations. Whoever proposes preserving and absorbing the good things in Western democratic politics

is branded a rebel, an opportunist, a revisionist, an advocate of bourgeois liberalization and class compromise, and other dreadful names.

The first time Marx talked about the proletariat taking power was in reference to the Paris Commune. Neither the Russian Revolution nor the Chinese revolution was proletarian in nature. Neither the Russian nor the Chinese proletariat won any of the rights of being the master of the land. Even labor unions are run by the state. To artificially incorporate the Russian and Chinese revolutions into proletarian rule, they invented the concept of one-party communist rule and equated it with proletarian dictatorship. After all, Article 1 of the constitution of the CPC states that the party is the vanguard of the proletariat. This enables the communists to justify themselves, arguing that the leadership of the Communist Party already fulfills proletarian rule. Besides, with translators turning "proletarian rule" into "proletarian dictatorship," the Chinese Communists felt even more justified in replacing one-party dictatorship by the Communists with personal dictatorship by the leaders of the Communist Party. In Mao Zedong's words, this is destroy first, construct later, and no destruction, no construction. What the new socialism destroyed was the capitalist democratic system. What it created was an absolutist system of personal centralization. The Communists just emerging from a successful revolution were pragmatic people. Told that they must not use any building materials from the capitalist world in putting up the new socialist edifice, they dug up the guillotines and crosses from the Czars' prisons and the frozen wastes of Siberia. As for the Chinese Communists, they could only unearth nail boards and racks (instruments of torture) in the Great Northern Wilderness and the desert in Qinghai. The "first destroy, then construct" theory has led to errors in history. Despite shortcomings here and there, capitalist democratic politics and the principle of the rule of law are highly effective in curbing personal despotism, preventing policies that harm the nation and people, and checking violations of human rights. They conquer one thing with another in a highly targeted way. In destroying the capitalist democratic system, the Communists effectively destroyed the electric mousetrap whose sole purpose is to punish fatuous and self-indulgent rulers and officials and gave ambitious and corrupt officials who filch like rats and snatch like dogs a blank check to do as they please, defying laws human and divine. This error led to a great historical tragedy.

#### **It Takes Iron-Fisted Politics To Practice Egalitarianism**

[Chen Yige] Can we say that the insistence on proletarian dictatorship is the root cause of the decline of one-party communist rule?

[Wang Ruowang] It is one of the reasons, but not the only reason. Economically, the Communists went in for state ownership of industry and commerce and agricultural collectivization. To enforce these egalitarian idealistic measures that bore no relationship to reality, they

needed a highly centralized form of iron-fisted politics (also known as power politics.) The result was a political system whose only administrative tool was coercion, commandism, and draconian law aimed at slaughtering innocent people. This is what proletarian dictatorship is all about. Economic destruction led to impoverishment and social decline. Add one-party dictatorship and life tenure for top leaders, and you have a situation in which one can only wait for the dictator to continue in his crazy way until he dies, prolonging the agony. Only when he breathes his last can one see a ray of hope. Riding roughshod over human rights and impoverishing the people, the dictator naturally arouses popular dissatisfaction and protests which, in turn, only makes him even more paranoid. Chanting slogans calling for the intensification of the proletarian dictatorship, he tries to eliminate all art, literature, newspapers, and publications that articulate public opinion and public discontent, even investigating street gossip, diaries, and mail. Amid shrill cries of the sharpening of the class struggle, Stalin unleashed the most brutal purges to eliminate counter-revolutionaries. He was so paranoid that he saw an enemy of the people behind every bush and every tree. As for Mao Zedong, he talked about class struggle and the theory of the uninterrupted revolution, conducted a literary inquisition, fabricated charges, and launched a string of political movements to destroy intellectuals and veteran party cadres. This only deepened the conflict between the people and the ruling party.

[Chen Yige] You said one can see a ray of hope only when the top leader of a socialist country dies. Did the death of Stalin and Mao Zedong mark a turning-point from hopelessness to life again?

[Wang Ruowang] I mentioned a ray of hope. Khrushchev rose to power taking advantage of Stalin's death, ambitious and hopeful that reform would turn the situation around. But it was not long before he was overthrown by Stalin's old cronies. This setback shows that without radical surgery to the political system, personal aspirations and an enlightened policy of partial liberalization would at best last briefly and cannot prevent the corrupt counterrevolutionary forces from staging a comeback. Khrushchev kept one-party centralization and even allowed the KGB system to carry on as usual. All he did was to execute Beria, the police chief. As it turned out, Khrushchev himself was overthrown by none other than the KGB. Gorbachev too came to power using the opportunity created by the death of Brezhnev. He learned from Khrushchev's failure that he must begin with restructuring the higher echelons of power and extensive democratization. As for China, here too the reformers had to wait for an opportune moment presented by Mao Zedong's death. If we do not eradicate one-party monopoly of power and proletarian dictatorship at their roots, we cannot improve the overall situation even if we happen to have an enlightened ruler and incorruptible officials. In fact, Mao Zedong's ultra-left specter is still hanging over us and a leftist shift has appeared in the last 2 years. That is why I say the death

of the top leader of the ruling party presents an opportunity, a ray of hope. But judging from the current situation in China, we cannot say that we have already grasped the opportunity and saved the party from death and destruction.

#### **Cambodia and Burma: Examples of Party Demise**

[Chen Yige] You say that to insist on one-party dictatorship is to bring the party to ruin. Is this a warning or a prediction?

[Wang Ruowang] I will not deny that it is a danger signal, but it is based on my observation of China's present situation. To say that the CPC would destruct is absolutely not alarmist talk. Since it has happened in our neighboring countries, we cannot even call it a prediction.

You should recall that the Cambodian Communist Party was renamed Cambodian National Army in 1982. Their radio announced that they would no longer follow socialism in the future. In Cambodia, over half of the "four principles" are already a dead letter. Tell me, is the Cambodian Communist Party defunct? As for how its destruction came about, we all know the answer. Let me add this: The string of follies committed by Pol Pot—abolishing the currency, sending all intellectuals in Phnom Penh to the mountains where they were forced to be "self-sufficient"—all followed in the footsteps of Mao Zedong. Mao Zedong's line was frightfully "left" to begin with. Pol Pot took it to its most destructive limit.

Another example is the Burmese Socialist Program Party. In power continuously for 26 years, the party is now in a state of pre-death coma, after being denounced and condemned by the whole people for 20 odd days.

[Chen Yige] Ne Win did not call the party he created a communist party, so its demise should not be included in the list of defunct communist parties. The press usually describes Ne Win's party as a one-party military dictatorship.

[Wang Ruowang] Your disagreement is a matter of classification. This is how I classify it. One-party dictatorship, a socialism that puts everything under state ownership, a powerless people who are at the complete mercy of the party, all powers to Ne Win—all these characteristics Burma shares with socialist nations ruled by communist parties. As for the fact that it did not belong to the communist camp, this is insignificant, as is the fact that he did not call his party a communist party but "Socialist Program Party." Created in the 1960's, the party was a latecomer: Before it had a chance to join the socialist family, the so-called socialist camp had already disintegrated. You think Burma does not belong to the camp, but it is an unofficial member of the Chinese camp. During the Mao Zedong era, China gave Burma aid with no strings attached. The whole world knows that. Ne Win's policies were basically a carbon copy of



Mao Zedong's policies. For instance, he went even further than China in confiscating private businesses. When China introduced nationalization, private owners were given fixed interest. Business owners in Burma did not get a penny.

As for the fact that Ne Win was a soldier who staged a coup d'etat to seize power, that only shows he was a practitioner of the theory that "political power grows out of the barrel of a gun."

Last month the Burmese people sounded the death knell for the Socialist Program Party. In effect what they were saying is this: one-party rule that has no room for opposition parties and allows military dictatorship would only take the country down the road to ruin. The people would be impoverished and seething with discontent. In the end, the dictator would be buried in a tidal wave of public condemnation. It provides further evidence that socialist ownership by the whole people just would not work.

#### The CPC Was "Dead" For 8 Years

[Chen Yige] What you said made me realize that Ne Win's rule bore some resemblance to that of Stalin and Mao Zedong. They may have taken different routes, but the result is the same.

[Wang Ruowang] There is yet another country in Asia where the communist party has destructed.

[Chen Yige] I can't think of it.

[Wang Ruowang] Our very own China. May be you were in Hong Kong and did not know the situation in China. Let me tell you. Between 1967 and 1975, this party was really dead. For a total of 8 years, leading party groups were dissolved; all party branches suspended activities; and all party leaders above the district party committee and county party committee level, even members of the Central Committee, were regarded as enemies and suspects. Wasn't this party dead? Outsiders perhaps do not know the situation. It was the leader of the party who declared its dissolution. This move certainly had no precedent in history and was really mind-boggling. Even the most imaginative futurists overseas would not believe such a weird thing.

Mao Zedong said at the beginning of his article "On People's Democratic Dictatorship," "When a man gets old, he dies. The same is true for a party... We must declare openly that we will struggle hard to create the conditions for the destruction of these things." His words have come true.

If only we take a look back at the scars etched on China's modern history by Mao Zedong after he founded the republic, we would agree that his series of perverse decisions and behavior indeed paved the way for burying the CPC.

[Chen Yige] "Party demise" has become reality in two small Asian countries. But it will not happen in the Soviet Union and China, will it?

[Wang Ruowang] As a veteran party member who has been struggling alongside the party for decades, I am filled with joy, like a man unexpectedly rescued from a desperate situation, to see that the party has turned back from a blind alley and shown a ray of hope. I have prepared the public for the economic reform under way in the past two years. But from my personal experience in the past decade, I see that the new central leadership shields and winks at ultra-left conservative forces. Political movements attacking intellectuals have perpetuated the "theory of the uninterrupted revolution." What we have in fact is Mao Zedong's line without Mao Zedong. Another chronic problem is the failure to overhaul a political system suited only to one-party dictatorship in the Mao Zedong era, a failure which only helps a bunch of corrupt officials, profiteers, and cadres who enrich themselves at public expense and misappropriate the fruits of economic reform. The upshot is extreme inequity in distribution. These two basic errors have bred widespread resentment among intellectuals and urban and rural residents against the government. Public disaffection has become apparent. Soaring inflation has only added fuel to the fire.

#### Reform Facing an Unprecedented Crisis

The party's Central Committee is now aware of the seething anger among the masses and the crisis facing reform. "It is now increasingly clear that if these problems are not resolved, not only would it be impossible to further reform, but the achievements of a decade of reform would also go down the drain." (Zhao Ziyang) "These problems" can be summed up as inflation, galloping price increases, widespread lax party and government discipline, the failure to enforce orders and the failure of orders to be effective. The tack of the Central Committee is to run the party and bureaucracy strictly, step up supervision, and intensify political and ideological work. Its general principle: "Improve the economic environment, restore economic order." But what is missing is a willingness to tackle the key issue of political structural reform.

General Secretary Zhao Ziyang and Premier Li Peng [2621 7720] has told a number of seminars called to convey the spirit of the 3d Plenum of the Central Committee and to solicit opinions from members of the CPPCC, "Our party welcomes you to speak your mind and express your opinions freely." Let me make two points here.

1). Price reform unaccompanied by other changes is like an "isolated force penetrating deep into enemy territory." To improve the economic environment without cleaning up the existing political system of one-party dictatorship also resembles "penetrating deep into enemy territory as an isolated force," probably with

worse consequences than introducing price reform alone. Imagine relying on corrupt inert organs (that do not enforce orders or are not effective in enforcing them) to check corruption. Will it work? The economic environment is a three-dimensional composite phenomenon. It is closely related to the democratization of the political system and to management, such as ending the pay inequity between physical and mental labor, the dissemination of scientific achievements, worker satisfaction, the enjoyment of a citizen's rights and freedoms, price stability, a more equitable distribution of wealth, peace of mind, and officials and cadres as public servants, not bureaucrats or bullies.

2). Why has corruption run amok? Five years of party rectification has not worked. Can we overcome corruption simply by sending out work teams, investigation teams, supervisors and price inspectors as in the days of Mao Zedong? As an expedient, whenever we discover corruption, we zero in on a couple of particularly blatant cases and punish the culprits severely amid much fanfare, instead of working to eliminate at the source the breeding ground of corruption, bribery, waste, and abuse by public officials. The result inescapably can only be one of these three depressing scenarios. First, the bark is worse than the bite. Corrupt elements lie low for a while only to go back to their old ways when the alert is called off. Second, catch a few small fry but let the big fish get away. The government may capture several live targets and make an example of them. It may close a few companies which have not followed through with the formalities, while allowing big shots that have committed crimes to sneak away and remain happily at large. Third, members of the investigation team get entangled in complex networks of "guanxi" or "personal relationships" and confuse right with wrong in their investigation report, even fabricating a host of new charges. Since the imperial commissioner, the one who trumps up charges, is sent by the Central Committee, nobody dare raise his voice in dissent even if innocent people are wrongly accused. This has been going on throughout history. Who can guarantee that each and every one of the inspectors sent down this time around would be an incorruptible official?

Good advice jars on the ear. These words, which come from the bottom of the heart of a disgraced non-party personage, presumably would not be heeded by the higher authorities. As long as they don't accuse me of again inciting the students to make trouble, I would be ever so grateful.

#### Official Lies Alienate the Public

[Chen Yige] You talked about "eliminating at the source the breeding grounds of corruption..." This is a radical cure. Can you explain the problem of corruption in greater detail?

[Wang Ruowang] It is hard to explain the problem in a few words. One can write several books on it. The Chinese Communists have traditionally loved to hear eulogies and opposed any move to expose and criticize the seamy side of things. Reporters and writers who wrote about corruption have all come under attack to varying extents, their works banned or revised. Liu Binyan, for example, was expelled because he wrote several articles exposing corruption and incidents in which the law was violated and innocent citizens injured. This created an unmistakable impression among members of the public at home and abroad: the Chinese Communist leadership seems to be shielding corrupt elements and is loath to let informed people expose evil deeds. It is intellectuals who speak out from a sense of justice who have come to grief. This has only made bad people more arrogant and vastly diminished the popular trust with which the party is held by the public. When healthy trends are not promoted, evil ones will prevail. Not only is this an unwise move on the part of the party, but the party's top leadership is actually encouraging corrupt elements. Before 1985, the press was not even allowed to use the adjective "corrupt" (except with reference to the bourgeoisie, Hong Kong and Taiwan.) That gives you an idea of the length to which the party went to hide its faults for fear of criticism.

The people judge your actions today in the context of what happened in the past and what will happen in the future. When corruption first reared its head, some people sounded the alarm. Not only did you ignore it, but you even criticized them. It was not until the running sore of corruption has spread to your forehead and penetrated into your bone that you cried, "Corruption is indeed the scourge of the party and the nation." How effective would this kind of appeal be?

The people have many complaints, prices being only one of the more urgent ones. Besides, it is hard to tell whether or not the price problem can be resolved in a couple of years. Let me mention another complaint, a very important one.

[Chen Yige] All the complaints you mention are high-class complaints.

[Wang Ruowang] What causes extreme dissatisfaction among the people is the party's way of not meaning what it says. It says one thing and does something else.

Take, for instance, this year's National Day editorial entitled "Our strength lies with the masses." It was in all the papers. Its thrust is that the party is now aware of the seriousness of public alienation. It so happened that on the same day, 1 October, the Public Security Bureau set up permanent police substations and public security offices in colleges and universities. This move shows that the authorities have made faculty and students the targets of dictatorship. Even faculty and students are

now forces that cannot be trusted. This event is a clear example of words not matching deeds. The government puts forward a revolutionary idea only to belie it with its own action.

Announcing the police action several days before National Day, XINHUA News Agency offered this explanation: step up law and order, protect the students' security, and ensure a stable united learning environment. Clearly this was so much newspeak. The government was lying. To put it bluntly, the move was intended to forestall and suppress student unrest that was constantly simmering beneath the surface and ready to break out any moment. Everybody knows this was the real motive. In this case, the word—that is, the editorial—was the opposite of the deed—the stationing of public security personnel in colleges and universities. Moreover, the deed was also inconsistent with the “explanation” offered by XINHUA News Agency. Both inconsistencies have diminished public trust in party leadership. Chinese people have become disaffected because they have been told so many official lies. We all remember the public announcement issued by an enlarged session of the Politburo in January 1987. It announced that General Secretary Hu Yaobang had “requested to step down from the post.” Nobody in the world believes this was the truth.

What plagues the CPC Central Committee and the State Council most these days is that orders are not being carried out and prohibitions do not work, a sign that government and party organizations are becoming paralyzed. The root cause of this problem is the party leadership's failure to honor its word and constant policy changes. Not knowing “what the policy is,” people at the lower levels naturally report to the higher levels that orders cannot be carried out and prohibitions cannot be enforced. You cannot blame them. In my opinion, the failure to carry out orders and enforce prohibitions is not necessarily a bad thing. In many cases, it is the way of the lower levels to resist mistaken orders and instructions.

#### **“Stability and Unity” Leading to Apathy**

Another high-class complaint. This one is aimed at a current political buzz word: “stability and unity.” We must not take this expression, so commonly used in the press these days, at its face value. We should see that this over-used slogan is a weapon, an excuse to preserve the old order, the old political structure. Stability and unity is an auspicious saying, synonymous with “The country is prosperous and the people live in peace.” Stability and unity embrace a full range of completely different political situations, so it is acceptable to all reactionary rulers, emperors, and generals. For example, the situation is grim and the people are in a state of panic, not knowing when and what disaster may hit them suddenly. Greedy and oppressive officials are in cohort with one another, the masses at the bottom have no stability. Still this is a kind of “stability and unity.” Another scenario: even our campuses are a haven no more. They must be watched

and guarded by the military and police day and night, as stable and united as the flock in the sheep pen. Stalin ruled the Soviet Union for a full 30 years. During that era, there was an endless chorus of eulogizing, a sea of red banners, singing, dancing. What a grand, glorious spectacle! Before they were allowed to die by execution, old cadres who confessed to false charges under torture must write their last words praising Stalin's boundless kindness. Was this not a scene of stability and unity as well? In China during the past decade, there were frequent anti-democracy, anti-humanism, anti-freedom of speech, assembly and association measures, which were invariably preceded by loud calls—“for the sake of stability and unity.” Stability and unity was put before everything else. In January and February 1987, Deng Liqun [6772 0500 5028] published a major work. Its title: “There Would be Nothing Without Stability and Unity.” Thus a reportage, someone voicing the aspirations of the people, a headline in the press, students putting forward basic democratic demands—all this was dismissed. People who are concerned about their nation and country and have the courage to speak out are branded as “unstable factors and unstable elements.” “Stability and unity, how many evil deeds have been committed in thy name!” An auspicious saying has become an ominous expression presaging disaster.

#### **Avoid the Open Road, Take the Log Bridge**

[Chen Yige] Do all these complaints show that the CPC has not really stumbled upon a solution to its crisis?

[Wang Ruowang] Right now there are two situations: one, a desperate but futile search for a way out; two, the solution is there, but there is an unwillingness to take it. The former situation is less tricky. The latter is fraught with difficulties. The first difficulty has to do with the people who created the crisis in the first place. It is like a man who stays away from the open road in favor of the log bridge. Others feel anxious for him but are unable to do anything. “The Emperor feels no urgency but the eunuchs are sick with anxiety.”

[Chen Yige] What does your “open road” refer to? Can you explain why the “emperor feels no urgency at all” and is unwilling to turn back from the blind alley?

[Wang Ruowang] “The spectators see the chess game better than the players.” “Players” refer to the officials in the ruling party. Sitting on their golden armchairs, they have everything they want. This determines their position, their viewpoints, their horizon. They have “lost their way and yet they are not aware of the errors of their way.” They balk at delegating authority and relinquishing power. They are not willing to return the government to the people.

In the initial stage of reform, there were loud calls for “smashing the iron rice bowl.” Seven or 8 years later, the iron rice bowl has not been smashed in many places mainly because the “golden armchair” has not been

overturned. In time reform became stalled after it reached a stage at which the golden rice bowl must be smashed. To protect their golden rice bowls, the authorities would rather take the log bridge. Let the eunuchs worry themselves to death. The emperor remains unmoved, believing that this is the ideal scenario of "stability and unity."

This sheds light on the psychology of those who try to avoid overhauling a most obsolete and corrupt political system and leadership structure. It also explains why meetings, discussions, and all efforts to solicit opinions from democratic personages and experts came up with either irrelevant measures or ineffective policies that emphasized the incidental instead of the fundamental.

[Chen Yige] What is your idea of the "open road?"

[Wang Ruowang] The open road is clearly there. The problem is that with their obsolete ideas and unwillingness to give up the privileged golden armchair, the officials would rather take the beaten track.

Scholars, experts, and think-tanks may draw up a closely reasoned and well argued action plan, but as long as the political structure of the old feudal monarchical or Mao Zedong mold is not revamped, even Jia Yi's "Zhean Ce," Xin Jiaxuan's "Mei Xin Shi Yi," and Kang Yuwei's "Gongju Shangshu" would be shelved and forgotten. They would be lucky to be read. The only thing we end up with would be several pieces of writings for future generations to marvel at. Besides, I am neither a strategist nor a scholar. My permanent registered residence has been changed. Here in this country, the truth depends on one's ranking. Why should I ask for a snub?

#### Political Dissidence: Product of Socialism

[Chen Yige] What do you think is the most burning issue in Chinese politics today?

[Wang Ruowang] The burning issue is to criticize Mao Zedong's policies and thoughts, criticize the habit of going back over the beaten track, of using the party to further personal interests. If we don't remove these obstacles, we cannot take the open road.

Let's analyze another anomaly, which you can say is characteristic of socialism, namely the presence of political dissidents. The very discrimination against and hostility toward political dissidents show that none of the party's policies and measures is scientific or democratic, let alone carefully considered and clearly thought out. In the Soviet Union, for instance, all Sakharov did was to put forward a different viewpoint: He opposed the invasion of Afghanistan. But because this took place in a one-party dictatorship, a furious Brezhnev was able to act wilfully and openly punished Sakharov, a fellow of the Soviet Academy of Sciences. History proves that Brezhnev's what-I-say-goes style of decision-making was disastrous for the nation and people. Similar things have

happened in China. In the Mao Zedong era, dissidents were called five kinds of elements, right wing, and other political names and locked up. (Actually many of them were not much of a dissident.) When Deng Xiaoping was in power, they replaced the right-wing charge with "bourgeois liberalization." What a geo-political coincidence! Just as Moscow announced Sakharov's rehabilitation, welcoming him back to the Soviet Academy, and freed over 500 dissidents exiled to Siberia earlier, Beijing declared it had found three new dissidents.

You can say these policy errors belong to the past, but the situation has only gotten worse in the last 2 years. Have our party leaders quickly waken up to their mistakes? You have some inkling from the instances I have just cited in which the party said one thing and did another or failed to make good on its promises in the latter half of this year. Let me now present two short excerpts from an internal speech. They are a vivid illustration of the way the top leadership thinks:

"Student unrest has had a bad influence on development. Summing up international experience, we can arrive at this law. Every country that has enjoyed relatively fast growth is one with a fair measure of political stability, centralization, and democratic development. Only in a socially stable climate can we develop the economy. Some of the postwar economic success stories cannot be separated from social stability. For instance, it was under the highly centralized rule imposed by allied occupation forces that West Germany and Japan retooled their prewar military economy into a market economy. Or take Asia's "four little dragons." Hong Kong, Singapore, South Korea, and Taiwan all achieved economic take-off amid social stability ensured by a highly centralized political system. In Turkey, the military rule was imposed and the economy took off. The same is true for Brazil, whose economy developed under military rule in the 1960's. With the pending departure of Pinochet, there is now talk of establishing a Pinochet regime without Pinochet. Thus any talk that is unfavorable to social stability would also be unfavorable to economic take-off and the introduction of democratic politics. Political unity and social stability must be preserved." Then there are these heart-felt words, "The issue of pay for intellectuals and prices—these are perennial problems. In the past, the press was rigidly controlled. Once controls were relaxed, it has behaved very sensitively. Intellectuals and the press take these matters too seriously, creating a sense of doom and gloom." Also, "The editor-in-chief of PRAVDA said there is more press freedom in the Soviet Union than in China. This is not necessarily true."

This is part of a speech circulated internally by a spokesman of the party's top leadership. It is blunt and does not mince words, which only makes it more authoritative. We can see that what they have learned from this exercise in international comparison is nothing but the trash of our time and reactionary political experiences. The sole purpose is to resist political democratization

and justify personal dictatorship and highly centralized military rule. They even glorify this absurd hogwash as a "law." Earlier I refuted their talk on stability and unity and pointed out that with their rigid conservative ideas, they refuse to turn back from the blind alley and insist on going their own way. This frank confession now further proves that my criticism certainly hits the nail on the head.

### Comparing Oneself to Pinochet

[Chen Yige] I have read your article "Refuting the Theory that Horizontal Comparison is Harmful by Hu Qiaomu [5170 0829 2606] and Xiong Fu [3574 1788]" in the Hong Kong press. From the comparisons enumerated by the spokesman, apparently he has not freed himself from the straitjacket Hu Qiaomu has created.

[Wang Ruowang] You are absolutely right. This is "a Hu Qiaomu and Deng Lihou system without Hu Qiaomu and Deng Lihou." Don't you see the "Pinochet regime without Pinochet?" We too have a "Mao Zedong autocracy without Mao Zedong."

During the 16 years he ruled Chile, Pinochet resorted to naked violence to get rid of Allende, who had been elected president legally. Immediately upon assuming power, Pinochet dissolved parliament and imposed martial law. The military ran amuck and killed at will. Large numbers of innocent citizens and members of the opposition were rounded up and exiled to desolate islands and remote concentration camps. Even football stadiums and abandoned mines were converted into makeshift jails. In the first 3 years alone, 130,000 people were arrested and almost 10,000 were expelled from the country. Why was such a brutal inhumane nation included in the honor roll of stable united nations? If not out of ignorance, then it is because they have lost the proletarian position and feelings, the minimal conscience, and a sense of justice.

[Chen Yige] Since military rule is brutal and deprives people of any democratic rights, why has the economy of this country been booming?

[Wang Ruowang] The development of a capitalist market-economy does not conflict directly with the interests of a dictator. For example, when Germany was under Hitler's rule, it was business as usual in all production sectors. In fact, the armament industry even expanded spectacularly. Another example is what happened under Chiang Kai-shek's dictatorship. China was plagued by domestic trouble and foreign invasion. There was endless internal fighting. But private commerce and industry flourished. Don't you see that on reform-through-labor farms and in concentration camps, prisoners stripped of all rights still turned out exquisite handicrafts which were exported to earn foreign exchange? This means that

even when the economy is doing well and the people can afford color television sets, motorcycles, and refrigerators, it does not mean that they are happy and free and in control of their destiny.

This reminds me of two recently popular sayings on the mainland: "Pick up the rice bowl and eat meat. Put down the chopsticks and curse." The first sentence means that with the rise in living standards, people now are adequately dressed and fed. The second sentence is an expression of dissatisfaction with social injustice, political corruption, and the lack of personal freedom. In the recent referendum in Chile, for instance, those who cast no votes (54 percent) were the ones doing the cursing, while those who cast yes votes (42 percent) were probably citizens who were satisfied with the improvements in living standards. What the spokesman envisages is still the kind of economic take-off to be effected under centralization and military rule in the absence of any democratic freedom. This kind of economy is usually referred to as bird-cage economy (and bird-cage politics as well.) This is what it means: Everyday I feed you worms and millet so that you can sing my praise. You can flap your wings and fly in the cage, but just don't imagine you can fly away. Nor should you envy the free world outside. Now what are you griping about? Isn't the free space I granted you graciously enough? If you don't behave, I would simply pull down the cover and let you rot away and die in eternal darkness.

Observers of our political macroclimate often make a distinction between decontrol and control. Actually, decontrol means removing the cover on the cage and control means pulling it down.

### The Entire Nation And Country Will Suffer Along With the Party

[Chen Yige] Brilliant fable.

[Wang Ruowang] You are too generous. To tell you the truth, I stole it someplace. The central purpose of the spokesman's speech I criticized earlier is to justify the establishment of a bird-cage economy. His hope is that economic reform can take place under one-party dictatorship and the what-I-say-goes form of government. Just give the bird in the cage whatever economic supplement it needs for survival. We need to mull over what the spokesman says carefully and handle it seriously because it more or less reflects the mentality of the people in power today and is used to guide public opinion.

[Chen Yige] Does this suggest that China's future look grim and that the CPC is doomed?

[Wang Ruowang] I think the CPC is accelerating its own demise. A more appropriate way to put it is that it is in a crisis-ridden state and on the verge of death. Your question actually raises a new issue (for China, that is): Why must a nation, a state suffer too when a party

degenerates? In a multi-party state, a party may go downhill, alienate the people, and lose public support. Its members may drift away and its organization may atrophy, but it will not affect national politics or the normal operation of the economy. The only thing that will happen is that voters will not vote for it again. This is separation of party and politics, of church and state, a progressive measure. The idea is to prevent making the lives and properties of an entire people dependent on a party or the personal likes and dislikes and whims of a single leader. After the Republic of China was set up, the destiny of the whole nation became the hostage of one party, the KMT. That was a mistake. After Chiang Kai-shek fell, the Chinese put their destiny in the hands of the communists. How about that? As it turned out, this too was a bad system, a dangerous system of putting the people's destiny at the mercy of a single individual.

It seems that the CPC would not perish at the moment. This is because it is a mammoth organization and does not lack clear-headed healthy forces within it. Even among the party elders, not everybody is benighted. Second, after almost a decade of economic reform, a new strata has emerged, one that is economically powerful and subscribes to bourgeois democratic ideas. Third, each and every one of China's neighbors, including Burma, South Korea, the Philippines, Taiwan, and the Soviet Union, is in the process of reforming or revolutionizing its economy or political superstructure. As for Japan and Singapore, their wholesale westernization (capitalism on the economic level and parliamentary and popularly-elected government on the political level) is a shining example that both exerts a powerful pressure on and has great appeal to China.

Let us hear what Daughter No 3 in Daguan Yuan has to say, "Given the large size of the family, enemies from outside cannot kill them all. As the ancients said, 'The centipede may die, but it will not ossify.' The only way the family can come to utter ruin is when members start killing one another." This was Tanchun lamenting prophetically. But she did hit upon historical dialectics, that is, internal substantive change is the driving force behind the evolution of matter from development to death. Those so-called Marxists-Leninists who are so much into self-destruction are not even as smart as a young woman 200 years ago. I too am lamenting prophetically.

[Chen Yige] Then are you suggesting that the party will not perish, that it can hang on for some years, albeit "neither dead nor alive?"

[Wang Ruowang] If the party remains arrogant and stubborn and concentrates on the superficial instead of undertaking fundamental reforms, its demise will be inevitable. It can hope to live to a ripe old age only if it sees the light, puts national interests before party interests in earnest, and begins by performing radical surgery on its own degeneration.

### Even Reform Objectives Have Not Been Clarified

[Chen Yige] As you see it, what should the party do to reform itself?

[Wang Ruowang] First, it must sort out the purpose of reform. Without a clear set of objectives, it can only pragmatically "cross the river by groping for the stones."

Is the purpose of reform solely to enrich the people or some of the people, also known as "quadrupling output by the 20th century [as published]?" This objective confines us to the economic sphere, the source of our mistake of trying to fly with one leg. Another question: Is the purpose of reform to protect party interests and the purity of Marxism-Leninism? That too is a terrible mistake. There can be no special party or factional interests other than general national interests. It makes sense to make the development of productive forces the objective of economic reform, but divorced from the reform of production relations and the superstructure, would not the development of productive forces become an empty saying? If, on the other hand, it requires us to go beyond the "four cardinal principles" to develop productive forces, are you willing to give them up? If you insist otherwise on the ground that the CPC would then lose its ideology and beliefs, then you are putting the private interests of the party first, ignoring the fortunes of the nation. This kind of party will be a barrier to the development of productive forces. How are you going to justify that?

Now that we have called for the separation of party and government and the creation of a clean efficient government, the expenses of the party, including the Central Committee and all party organs at all levels, should not come from the national budget, but from party member dues and a fixed amount of subsidy the government will give to a political party each year. In the past, the party's operating expenses and budget came from the government. Not only was this unjustifiable, but it gave rise to a bunch of corrupt party officials and turned party organs into a bloated bureaucracy. To solve this problem, we must begin by introducing multi-party politics. Then the privileges now enjoyed by members of the CPC and the party route to officialdom would also disappear. An even bigger advantage is that it will greatly lessen the burden on the people and help close the budget deficit.

Another reform is that the leading organs of the party must be directly elected in accordance with democratic principles. There must be no designated candidates. The elections of party organs below the county level should feature more candidates than seats.

As for the open road to political reform, I am all for allowing the "waterfront pavilion to get the moonlight first" (let those who are favorably positioned reap the benefit first) as a way of learning everybody's strong points.

[Chen Yige] What does allowing "the waterfront pavilion to get the moonlight first" mean?

[Wang Ruowang] It means looking around at your neighbors and if you see some good stuff, copy it. As long as something helps develop productive forces and build up democracy, we should borrow it. A Soviet newspaper, for example, said in an article that it should adopt the Swedish model. BANYUETAN, a Beijing publication, says the Shenzhen Special Economic Zone should copy the Hong Kong model indiscriminately. These are examples of letting the "waterfront pavilion get the moonlight first."

### **Can Shenzhen Copy the Hong Kong Model Indiscriminately?**

[Chen Yige] Will it work?

[Wang Ruowang] It has not been carried out so far. However, I support this and similar suggestions. They are bold and innovative in two ways. First, it discards the rigid model of socialist public ownership outright. Wherever the socialist mold surfaces, people live in destitution. The country is backward and there is widespread discontent and bitterness. We must muster the courage to throw out this insidious model. So what if we have to start small on a tiny piece of land? At least it would be better than the planned commodity type of bird-cage economy. Second, China today has the misfortune of being a poor country in the world. It must learn from advanced democratic countries. It is surrounded by ready-made success stories. Besides, it does not cost you a penny in royalties to copy others' management and political systems. All you need to do is to rid yourself of two pretensions, that the leadership of the CPC is totally correct and that socialism is excellent. But if you still cling to them, you have already raised two ideological obstacles and will not be able to learn anything useful.

[Chen Yige] Can you explore the question of Shenzhen copying Hong Kong indiscriminately a little further?

[Wang Ruowang] If we really do this, we will raise many issues never imagined before. Besides, since I have only heard something along this line, it seems a tad premature to explore the issue now. You are a Hong Kong resident, so maybe that is why you are particularly interested.

What concerns me most is political structural reform. It would certainly be a good idea for Shenzhen to totally free itself from the existing mainland framework and copy the Hong Kong model lock, stock, and barrel. But can it go beyond the reach of one-party rule? Hong Kong is under one nation, two nations. If Shenzhen belongs to the other system, it will be at a severe disadvantage in its competition with Hong Kong. In addition, it will imitate Hong Kong's policy-making, supervision, tax, and civil service systems. The supreme organ of power in Hong Kong's superstructure is to be determined by the basic law, but opinions are still divided on the basic law. This

is a major void in the Hong Kong model, one which will determine life and death and property. One nation, two systems is a popular idea, but the people of Hong Kong are full of concern over the shape of Hong Kong's future political system and are all planning to migrate. This situation further lends credence to the point I made earlier that "economic improvement is not the same as happiness and does not mean that one can control one's destiny." As long as this void remains an unknown, it is hard to stop the Hong Kong people from thinking of migrating. Shenzhen may do a perfect job in imitating Hong Kong. But as long as its boss is a dictatorship or at least a bunch of people able and ready to intervene, it matters little what civil service it sets up and whether or not it has an ombudsman system. In the end, all this will not live up to its promise and Shenzhen will become neither fish nor fowl. I do not mean to be a wet blanket, but the fact is that the mainland has indeed introduced a variety of things, from the democratic system to enterprise management, from advanced countries only to end up turning right into wrong. People suffered and efficiency did not improve, all because of elaborate, arbitrary intervention by the leaders of the ruling party. This happened to the electoral system, jury system, job title evaluation system, even promotion and pay raise system.

Thus it is a good idea in itself to set aside a place as a laboratory for reforms and to compete with neighboring Hong Kong. The trouble is that they have only changed the bottom, not the top. Two attempts to develop Hainan Dao have both ended in dismal failure; much was said but little was done. A similar fate has befallen Shenzhen, Zhuhai, and Xiamen. The root cause is what I said earlier: the political syndrome. For example, Hainan Dao planned to publish a private newspaper but the idea was killed by the Central Committee. So the zone is no match for Hong Kong.

The practice of just changing the bottom and not the top is a methodological problem. And they fall short methodologically because of their rigid and dogmatic understanding.

### **The Soviet Reform Strategy Is Worth Emulating**

I have digressed. Let us turn back and talk about adopting others' strengths extensively.

I think Gorbachev's reform strategy is worthy of our emulation. First, the Soviet Union is a socialist state. It shares with China some common historical twists and turns. Its power structure and that of China were derived from the same source. Its bureaucracy is more entrenched, its leadership more deified, its ultra-left ideas more corrupt and insidious than those of China. Reform in the Soviet Union is much more difficult than in China. Moreover, it trailed China by 6 or 7 years in reform. To make economic reform work in 3 to 4 years is by no means easy. Yet Gorbachev's strategic plan got off to a good start. First, he stated his ideological case for reform clearly. In his writings he explained the necessity



for and urgency of reform and pointed out bluntly the existence of conservative elements and their schemes to obstruct reform in every way possible. That way Gorbachev set clear goals for reform and made clear the inevitable ideological struggle. Second, he rectified from the top down by restructuring the top organs first, in sharp contrast to China where we restructured the bottom but not the top. Third, he emphasized "glasnost" and encouraged public participation in government decision-making and free criticism and debate. Intellectuals were relied on to unshackle the press, films, television, and art and literature. Fourth, he stopped at nothing to expose and criticize Stalin's brutal massacre of large numbers of old Bolsheviks and rehabilitated all those who had been wrongly accused. (We will skip his diplomatic achievements here.) We in China also rehabilitated the wrongly accused, an achievement that should not be written off, but we shielded the direct perpetrators of trumped-up charges and failed to punish their brutal accomplices. (Of course, we should not go after those people who blindly carried out orders and committed minor offenses.) Thus the idea is perpetuated that evil-doers are still right and that human rights violations are not something to be ashamed of. Moreover, the CPC denies the existence of conservative elements (that is, ultra-left elements) in the interest of stability and unity. But it is exactly these two anti-reform forces that rocked the boat several times, with foreign as well as domestic repercussions in the latest instance, thereby putting back the reform timetable. The upshot is a chaotic situation that is neither united nor stable.

Last September Gorbachev called an emergency meeting at which the Supreme Soviet and Politburo were restructured. Die-hard conservative elements were removed and Igor Ligachev was demoted in order to overhaul the ideological departments. (At the national conference of the CPSU 3 months earlier, Gorbachev seemed to side with Ligachev during the verbal duel between the latter and Boris Yeltsin. More cautious than Yeltsin, Gorbachev at the time realized that Ligachev still had a considerable following among conference participants and the opportunity to act had not yet arrived.)

The removal of Ligachev to the sideline has the same significance as Deng Lihou's total defeat at the 13th National Party Congress. But there is an essential difference between the two events. Deng Lihou was removed against the wishes of the leadership. It was not ideologically prepared. His downfall came from the bottom and reflected the extreme loathing of the people inside and outside the party for ultra-leftists. The difference between the loss of power by these two key figures mirrors the gap between Gorbachev's thinking and the guiding ideology behind the reform of the CPC. If we understand this, we will also understand why even as the Soviet Union seized the opportunity provided by the airborne intrusion of Mathias Rust to remove high-ranking conservative elements from the military, the Chinese Communists forced a reform-minded general secretary out of office, using student demonstrations as a

pretext, and punished several people who have the courage to speak out bluntly. These two sudden turns in events are both landmarks, but their historical significance is diametrically different. The former cleared the way for reform. The latter laid the foundation for conservative forces to take center stage. The gap between the Soviet Union and China has only widened since then. It should be seen that Gorbachev's reform has also borrowed some good stuff from China. Why can we not emulate their positive experience of granting freedom of speech and cleaning house at the top first?

#### Gorbachev's Amazing Moves

[Chen Yige] Gorbachev is a bold reformer, but there are also limits to how far he can go. Does he follow some principles too?

[Wang Ruowang] Every politician, in fact everybody, is constrained by his position, history, and cultural level. A party member is subject to party discipline, party platform, and different interest groups both inside and outside the party. To secure his name in history, a politician must transcend well-established archaic rules and conventions and do his best to free himself from the straitjacket created by his forefathers. Judging from whatever data we have today, Gorbachev too abides by certain principles. For instance, he must preserve Leninism and the socialist system, but he is prepared to change and update at any time the substance and characteristics of socialism, to the extent of leaving only the exterior of socialism untouched. There is one principle in dialectics, namely the unity of being principled and being flexible. We get an inkling of this from a speech given by Vadim Medvedev, secretary of the CPSU Central Committee, "...No doubt socialism is facing a new historical challenge. We need to make profound changes to update and revitalize it without playing down the achievements of the new social system." Note "profound changes to update and revitalize it." It implies thorough, fundamental changes. (TASS, 4 October)

[Chen Yige] Does the CPSU insist on one-party dictatorship?

[Wang Ruowang] No signs so far suggest that the CPSU would reject one-party rule in favor of a multi-party system. On the other hand, Gorbachev has never used such an absolute word as "insist." This much we know about his style from the 3 years he has been in power: when conditions are not ripe, he draws the bow without shooting. The present situation is that the Soviet public, particularly the party rank-and-file and cadres, will not agree to give up the party's leadership position. Once the time has come, Gorbachev is fully capable of surprising us.

However, there has been news from the Soviet Union that some citizens have organized a new party named "Democratic Alliance" whose members include human rights activists, dissidents, and people from Moscow,



Leningrad, Riga, Tomsk, and other places. A meeting was held in Moscow attended by over 100 people. After the meeting, 19 Soviet citizens were arrested by the police. (Reuters 9 May)

This piece of news suggests that the organization of new political parties is an inevitable new product of opening to the outside world and social reform. It is the trend of the times. It is like the Solidarity movement in Poland which is irrepressible and indestructible and will develop into a political force to match the Polish Communist Party. On the other hand, it also shows that the CPSU refuses to recognize the legitimacy of other political parties. Still, it has stopped short of branding them as anti-Soviet, anti-communist, and bourgeois liberalization.

There is a Chinese saying, "The waterfront pavilion gets the moonlight first." Hong Kong is a "waterfront pavilion." My understanding is that what makes Hong Kong stand out is its economic model and business and industrial management. These should be the first things we copy. The Soviet Union too is a "waterfront pavilion," but because of its old planned economy, collective farms, and rigid one-party system, it has lost its luster. It must be acknowledged that the two areas to which the remarkable Gorbachev has applied himself—unshackling the press, art, and literature and exposing the dark

side of Soviet history—are exactly those which are lacking in China. Because it has tried to avoid these two areas, China has suffered setbacks and wasted precious time in its 6 or 7 years of reform. Our spokesman thinks nothing of this "waterfront pavilion." He said, "The editor-in-chief of PRAVDA said that the Soviet press is freer than China's. That is not necessarily true." The Chinese press, radio, and TV are famous all over the world for their lack of freedom and monotony. Why argue with facts? Isn't his oral command itself live testimony to the unfree state of the Chinese press?

In short, I support Sun Yatsen's "one world" idea. To realize this ideal, we should adopt a multi-party system as practiced in Britain, France, Germany, and the United States, instead of one-party monopoly. An additional advantage of this system is that it will help promote peace talks and cooperation between the two sides of the Taiwan Strait. Since the "one world" idea was President Sun's, they certainly cannot reject it. To reject the multi-party system is to put party interests first and perpetuate those longstanding, big, and difficult problems, including the party's decline. Multi-party rule is the political mold for modernization and has become a surging global trend.

[Chen Yige] Thank you for taking the time to answer our questions.

## NATIONAL AFFAIRS, POLICY

### Strategy for Country's Economic Reform

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[Article by Wu Jinglian 0702 2417 8834: "Differences and Options in China's Economic Reform Strategy"]

[Text] This treatise presents a very limited view of China's huge reform undertaking, and its criticisms of the points of view of colleagues in the same profession are not necessarily correct. This paper seeks to exchange views and rectify errors. None of us has a monopoly on truth; however, only by adopting an attitude of seeking truth in facts to make a scientific inquiry can we gradually approach truth.

I believe that among the experiences and lessons of economic reform in China and abroad, the following several points deserve particular attention:

1. The goal of economic system reform is to free up productivity and to insure long-term, steady growth of the national economy, and nothing else. Consequently, the correctness and appropriateness of all reform measures must be judged in terms of whether they help long-term, steady development of the economy. All measures that purport to be effective but are not, or that are only partially effective or effective for only a short period of time but get in the way of long-term, total development cannot be termed true reform. This is the first principle that must be firmly grasped when accepting or rejecting actions of one kind or another.
2. Both the acceleration of economic development and pushing ahead with reform have to proceed from China's realities. The greatest economic realities in China's are that it has a huge population; most of its population lives in rural villages; the per capita amount of resources is rather meager; and it is still a backward agricultural and industrial country in transition to becoming a modern industrial country. In such a country, increasing efficiency is the key to success or failure in modernization. Since no fundamental improvement in economic efficiency can be made until a new system is basically established, our reform strategy must be as follows: First is to concentrate efforts to build the basic framework for a new system within a short period of time that can begin to operate in a preliminary way, only thereafter talking about long-range high speed growth. In addition, a socialized economy cannot be attained by just "delegating authority and relinquishing revenues" in order to stir the enthusiasm of individual producers. Everything depends on making changes that will improve returns from the allocation of resources, and returns in the operation of the microeconomy. Otherwise, either the economy will go on "working in spite of illness," but will be unable to operate effectively for a long period of time, or the problems occasioned by "reform for the sake of

reform" will be more numerous than the problems solved. Either way, in the end, development of the national economy will run into difficulties.

3. A good economic climate is necessary for reform. First of all, aggregate supply and aggregate demand have to be pretty much in balance in order to make sure that when major steps are taken in reform, they will not lead to the development of a rather lax climate of serious inflation. However, under the old system, such a good economic climate could not survive. Therefore, before making any decisive steps in reform, all possible means should be used to create such a climate and to painstakingly protect it. Otherwise, reform will encounter setbacks along the way, or even sink into a predicament of inability to move ahead and no way to go back. Consequently, until such time as a basic change of tracks occurs, and tight control over the budget is effected, special care should be exercised to prevent the use of inflation to support high speed growth of output value, and methods that raise civilian consumption levels too rapidly, or even the growth of unhealthy tendencies toward extravagance and waste, because all these things can lead to a worsening of the economic climate and hurt reform.

4. Efforts should be made to shift from the old to the new system within a fairly short period of time rather than drag along for a long time in indecision with a dual track system with its many anomalies, contradictions, and loopholes, which makes it impossible for the system as a whole to function effectively in the allocation of resources. After initiating across-the-board reform, the existence for a short period of time of a certain amount of the "dual track system" is not strange. However, if effective steps cannot be taken to eliminate the continuation of this dual track system within a relatively short period of time in order to build a preliminary framework for the new system as rapidly as possible, a decline in economic benefits, a worsening of the economic structure, an increase in fiscal deficits, and an increase in inflationary pressures will be difficult to avoid. If matters go awry, stagnation, inflation, and a debt crisis may ensue, making continuation of both reform and development difficult.

5. The goal of economic system reform is to build a socialist planned commodity economy characterized by enterprises that have complete decision making authority in management and are responsible for their own profits and losses, a competitive market system, and a macroeconomic regulation system that is in keeping with the other two features, i.e., a macroeconomically controlled market economy system. The foregoing three features are organic components of a socialist market system. They are interrelated and mutually inclusive; if one is lacking, the other two cannot exist. In order to insure that the new economic system will function as a system, reform has to be carried out in a well-coordinated fashion in which enterprises, markets, and the

macroeconomic regulatory system are linked. If there is no coordination, anticipated results will not be obtained from an advance in any single aspect since there will be no overall effect.

6. The crux in turning existing state-owned enterprises into market operating entities having full decision making authority over management, and being completely responsible for their own profits and losses lies in thorough reform of the old pattern of no separation of government administration and enterprise management, and thorough change of the situation in which government is both the controller of the social economy and also its owner and operator (the real controller of assets). Any measures for the delegation of authority and the relinquishing of revenues that does not change the separation of government administration from government enterprise management, such as profit retention, "contracting" with departments in charge etc., are only improvements made within the framework of the old system; they can only ameliorate enterprises' difficulties without truly enabling them to obtain decision making authority over management. The real way out lies in renting and selling to small enterprises, property rights being turned over to individuals and collectives. For large enterprises, the joint-stock company system that is prevalent in modern economies should be instituted. After reform of the form of organization in publicly owned enterprises, government would function only to control the social economy; it would no longer play the part of a representative of the owner, much less be able to interfere in the internal workings of enterprises. Within enterprises, property rights would have to be spelled out, with shares being held by organizations representing various parts of the public (such as state investment companies and foundations) and individuals. At the same time, a balanced relationship has to be established among owners, operators, and workers in which the rights of the owners are limited only to shareholding authority, participation in share dividends, hiring and firing of directors, and voting at shareholder meetings. Actual control authority over enterprises would, therefore, repose entirely in the hands of the managers (including the board of directors, and high ranking executives appointed by the board of directors).

7. The so-called market mechanism is nothing more than a system for setting prices that is made up of supply and demand. Its operation enables the relative prices of goods, services, and key factors to reflect their individual scarcity. This is the only way to insure that all economic plans can be correctly put into practice, and that all scarce resources are effectively allocated. The seriously distorted price system shaped by the old system caused extreme damage to efficiency throughout the national economy. Therefore, the building of a rational price system and competitive markets is crucial to success or failure of the entire reform. At the same time, it is the most difficult part of the entire reform. Reform leaders in all countries usually move gingerly with such reforms. Furthermore, success shows that this reform cannot be

bypassed, nor should it be protracted. When the object of reform is to build a socialist market economy, this hurdle must be surmounted sooner or later, and the longer it is delayed, the more difficult and passive it becomes. Loss of opportunities in this regard amounts to self-destruction of economic development and reform. Prices and "the dual track system" in other regards are useful means for avoiding hidden shoals in the old system, and when there are special political and economic conditions that suggest that the old system's ideology continues to occupy absolute dominance. However, continued long-term maintenance of "several prices for the same thing," and "dual transportation regulations" when conditions have changed not only seriously hampers establishment of the basic system of equal competition in the market economy, which means there is no way to put into effect the basic principles of "rewarding the go-getters and penalizing the lazy," and "advancing the superior while eliminating the inferior," but it also provides a huge breeding ground for reckless conduct such as the use of special rights for "rent seeking." This leads, in turn, to serious unfairness in distribution, which poisons the social atmosphere. "Official profiteering," and "misuse of authority to engage in business" enables the spread of corruption, which endangers the Party and government organism. Thus, such situations must be quickly changed.

8. Failure to change the situation of no separation of government administration and enterprise management, and of administrative authority holding a controlling position, instead simply adopting measures for "administrative decentralization" by delegating the great centralized authority of the central government to local governments or control units at all levels is not consistent with the orientation of reform toward the building of a market system. Although such a move may be of short run or superficial benefit to local governments and sectors, since it does not help shape and strengthen unified markets but rather leads to the increased fragmentation of markets and to the proliferation of protectionism, it may seriously get in the way of each jurisdiction and each sector making the most of its pluses, minimizing its minuses, and using its dominant features. It may create conflicts of interest among regions and sectors, and cause erroneous allocation of scarce resources; hurt the overall interests of the national economy; and ultimately be harmful to the development of each area and sector.

9. Economic reform must be actively and appropriately carried out in concert with political, cultural, and other kinds of reform. This is because the old political ideological superstructure protects the old economic system, and is not in tune with a market economy. Unless the old political system and value concepts are changed, the new economic relationships cannot mature smoothly. First of all, the goal of political reform is to build a highly democratic political system controlled by the majority. However, it is only after a strong middle class in which

entrepreneurs, intellectuals, and other people with special skills has grown up that a high degree of democracy can come about. Thus, the realization of a high degree of democracy is a gradual process that moves along in concert with the development of a market system, and the rise of a middle class. During the first stage of economic reform, the main task is coordination with market system reform to change rapidly the old system that seriously interferes with enterprises' exercise of decision making authority and the formation of markets. It is also necessary to change the system whereby administrative authority controls all social life, separating from the government the functions of the so-called representatives of the owners in the public ownership system, and abolishing interference by governments at all levels in enterprises' microeconomic market activities. Legal methods must be applied to insure the freedom and equal rights of all citizens, including the right of natural persons and legal persons to make free choices and compete equally. Second should be a gradual separation of Party and government for the promotion of representative system democracy and the attraction of an increasingly large number of people to take part in the administration of urban area self-government matters. At the same time, the relationship between central government centralized authority and local government decentralized authority should be handled prudently. The goal of political reform is, without doubt, the building of a decentralized decision-making system that affords widespread grassroots participation in activities having to do with the running of the country. However, such a political division of authority must be founded on nationwide unified markets, and not be compartmented. Furthermore, experience shows that full mobilization and concentrated use of scarce resources in developing countries requires efficient "administrative guidance" by a "tough government," and both the eradication of the old system and the building of the new system will also depend on the state, particularly on forceful measures on the part of the central government. Premature weakening of the centralized authority of the central government would hurt both development and reform. During the transitional period, when the central government will have to maintain substantial centralized authority, prevention of the abuses that inevitably follow from the centralization of authority will require adoption of the following remedial measures: (1) Efforts to increase political transparency by strengthening supervision of all levels of government by the mass of people; (2) making decision making more scientific, taking full advantage of the role of "proponents of the idea that experts should rule the country;" 3) a strengthened democratic centralization system within the Party and government. Third is the need to eradicate value concepts such as the high esteem for administrative authority, and adherence to a median course that grew up under the stratified feudal system, substituting a business culture that includes equal competition, the exercise of decision making and independence, abiding by written agreements, and daring to forge ahead and pioneer as a means of opening the way toward a market economy.

10. Carrying out a basic transformation of the economic system in a country such as ours with a population of more than 1 billion is systems engineering on a tremendous and unparalleled scale that requires guidance from theories and permits no slapdash trying of one thing after another. Otherwise, twice the effort will be required for half the gain, or failure may even result. Therefore, it is necessary to strive to intensify theoretical preparations for reform. We must conscientiously study international experiences, and make timely critiques of our own experiences, using scientific information pertaining to a market economy's operating mechanism, and socialist countries economic reforms to prepare all cadres. Only with guidance from scientific theories is it possible to surmount the difficulties that are bound to be encountered in the reform process and attain our goals.

The controversy surrounding a series of strategic issues in Eastern European reforms has been well known for quite some time. For example, is partial reform and gradual advance a better tactic, or is "wholesale" reform more effective? Should administrative separation of powers be given priority, or would efforts to bring about an economic separation of powers be more advantageous for reform? Differences of opinion have long existed on these issues. These are also issues that China's economists have constantly discussed ever since the need for reform of the economic system was first raised in China in 1956. In addition, as a country with a huge population and a backward economy, China has quite a few other problems peculiar to itself. Therefore, the strategic options issue seems especially complex, and there are innumerable schools of thought about them. In my opinion, however, despite the extremely diverse and confused opinions expressed over a long period of time, two different general approaches may be differentiated in terms of basic concepts as follows:

The essentials of one approach are: (1) the basic defect in the traditional socialist economic system is an overconcentration of decision-making authority that restricts the initiative of local governments and producers; (2) any measure that serves to break up this overconcentration and to stimulate the initiative of local governments and producers is consistent with the orientation of reform; and (3) the stirring of this initiative may be done through both the delegation of authority and the strengthening of material incentives, and thus all such actions should be supported.

The essentials of the other approach are that (1) the various defects of the old system are attributable to the allocation of resources through administrative commands, and this method of allocating resources cannot be effective; (2) the only system to take the place of the administrative command system for the allocation of resources is the market mechanism; and (3) reform should have as its goal the building of a market system for synchronized, and coordinated advance. Only those reform measures that help create a market system are consistent with the orientation of reform and should be supported.

In reality, the controversy about strategic options at each stage centers on the foregoing basic issues. It is simply that each stage has its own distinctive characteristics.

This article seeks to use actual circumstances in economic reform in China during different periods to explain the judgments that the author has made above.

#### **The 1956-1958 Reform: A "Reform Cycle" of Administrative Separation and Recentralization of Powers**

China was one of the very first of all the socialist countries to propose economic reform. Back in 1956, the leaders of the Party decided that China must undertake reform of the economic management. This decision grew out of criticisms of the way in which the traditional system had operated during the First 5-Year Plan (1953-1956).

The perception about defects in the traditional system prevailing at the time showed up most clearly in Mao Zedong's speech, "On the 10 Sets of Relationships" delivered to the CPC Politburo in May 1956. In that speech, Mao Zedong pointed out that defects in the USSR's system lay principally in an "overconcentration of power." He said, "We cannot do as the USSR has done, concentrating everything in the central government while choking local governments to death and giving them no authority to move at all." He also said, "The concentration of everything in the central government, or in provincial and municipal governments, allowing industrial plants no authority at all, no room for maneuver at all, and no benefits at all will not do, I fear." Several economists at that time, notably Gu Zhun [7357 0402], who was subsequently branded a "rightist," pointed out that the system could be changed to allow enterprises to make decisions freely on the basis of market prices.<sup>1</sup> In other words, a market-oriented reform should be conducted. But this idea seemingly did not attract the attention of most Chinese economists who were still constrained by traditional socialist economics. On the basis of the dominant perceptions at that time, the course that Mao Zedong set for economic reform was: (1) to enlarge somewhat the powers of local versus the central government, giving local governments greater independence, and allowing local governments to handle more matters; and (2) to allow production units independence from the central government while maintaining close links of unity in order to enable them to develop in a more lively fashion. At the same time, Mao Zedong also mentioned the need to show concerns for the living standard of the masses, raising the incomes of workers and peasants as output rose.

Nevertheless, this policy of delegating authority<sup>2</sup> and "relinquishing revenues" was revised after 1957. In the wake of the "anti-rightist" movement in China during 1957, and the gradual escalation of criticism of so-called "revisionism" that began at that time, both material incentives and enterprise-self management came to be

regarded as "revisionist." They were no longer emphasized in subsequent reform; instead, emphasis was placed on the decentralization of the authority and interests of government agencies at all levels in what both Morris Bornstein and I term a reform approach of "administrative decentralization." It was in line with this approach that the first reform following the founding of the socialist economy in China was mainly to enlarge the decision-making authority of local governments over enterprises, raw materials supply, and investment. Specific changes included the following:

1) Delegation of control authority over state-owned enterprises. Except for a small number of enterprises of an important, unique, and experimental nature, authority over all other enterprises under control of central government departments was delegated level by level.

2) Delegation of control over planning. The planning system that was centrally balanced by the State Planning Commission and that extended downward echelon by echelon was transformed into one in which prefectures were paramount, and that was organized and balanced from bottom to top.

3) Delegation of managerial authority over investment in fixed assets. A "contract" system was instituted for local governments. Under this system, the central government disbursed some funds to local governments. Within the limits allowed by these funds, plus any funds they raised themselves, local governments could make their own decisions about the types of projects they wanted to operate, including above-norm large scale projects.

4) Delegation of materials distribution authority. The old financial "centralized receipts and centralized expenditures" system was changed to a system of "level-by-level control and tailored sharing guaranteed to remain unchanged for 5 years." In addition, local governments' authority to reduce, exempt, or increase taxes was enlarged.

5) Delegation of loan authority. The former highly centralized credit system was replaced by a system of "delegating credit control to lower levels, controlling only the debit-credit differential."

At the same time, actions were taken to enlarge enterprises' decision making authority in the following ways: (1) large scale reduction of mandatory plan quotas; (2) the former system whereby different enterprises could withhold a fixed percentage of profits as "enterprise bonus funds" (the plant manager fund) was changed to a "total profit retention" system with a different retention rate for each enterprise. (3) Enterprises personnel placement authority and authority over institutional structure was increased; and (4) Enterprises could themselves allocate a portion of funds, and they also had authority to increase, reduce, or scrap fixed assets.

This body of stratified decentralization measures, which were instituted while maintaining without change the overall framework of a command economy, together with the rural people's communes, formed the organizational basis for the "Great Leap Forward." A book titled, "Organizational Reform in Modern China" vividly described the economic system reform of this period. One description was "blindly delegating administrative authority," and another was "expanding enterprise management authority amid chaos in management of the national economy." Clearly, this was a main cause of the descent into chaos of China's economic life in 1958.

People have a mistaken impression about the economic chaos of 1958. They suppose that socialist economies are doomed to inability to institute decentralized policies. Thus, following the failure of the "Great Leap Forward," the Chinese government adopted a series of measures to recentralize control over finance, credit, and enterprise administrative authority. In fact, however, the government was never able to achieve this entirely. The "administrative decentralization of authority" approach of 1958 and its methods had far-reaching effects in China. All levels of local government in China possess greater authority than in other command economy countries, and the very great weakness of central planning restraints has become ingrained, so much so that some students of the Chinese economy term it a "bargaining economy" in which there is haggling about everything. On the other hand, even though the inherent defects in a command economy mean that the task of carrying out reforms is always on the agenda of socialist countries, because of the ideological impediments, it is very difficult to gain political acceptance of market-oriented reforms (so called "market socialism"). Thus, when reform is carried out, administrative decentralization becomes virtually the only possible option. Consequently, after 1958, reforms similar to the 1958 administrative decentralization were conducted many times. This way of doing things always created chaos, which was again followed by a renewed centralization at the end as was the case in 1970 during the large scale system reform under the slogan of "delegation of authority is revolutionary; the more authority delegated, the more revolutionary."<sup>2</sup> It is in this way that the so-called "reform cycle" in China's economy of "relaxation bringing chaos, and control bringing stultification" comes about.

#### **1979-1984: Achievements and Shortcomings of the Strategy of "Delegating Authority and Relinquishing Revenues"**

After many years silence, the winds of reform began to blow again in the wake of the 3d plenum of the 11 CPC Central Committee in December 1978. This plenum reiterated the basic perceptions and basic policies of Mao Zedong's, "On Ten Sets of Relationships." This article pointed out that the old system's "greatest shortcoming is the overcentralization of power," and called for "leaders to delegate courageously, allowing local

governments and industrial and agricultural enterprises to have greater administration and management decision-making authority under guidance of unified state plans," "to attach importance to the role of the laws of value," and "to bring into full play the dynamism, initiative, and creativity of central government departments, local governments, enterprises, and individual workers." This insured that the main thrust of reform would be, first, the delegation of more decision-making authority to local governments and production units; and second, relinquishing more profits to local governments, enterprises, and individual workers. Both had arousing the initiative of local governments and producers as their goal. Therefore, the post-1979 reforms were termed reforms that had as their basic approach the "streamlining of government and the delegation of authority," or the "delegation of authority and the relinquishing of revenues."

The basic approach of this reform was similar to the reform proposed in 1956 in that both espoused the principle of "delegation of authority," and "relinquishing revenues." However there were extremely great differences in the extent of application of this principle, and these differences were manifested primarily in the following ways: (1) the emphasis of the 1958 reform was on "administrative decentralization," but post-1979 reform placed greater emphasis on an expansion of enterprises' decision making authority; (2) the 1958 reform occurred mostly in state-owned units, while the post-1979 reform applied to a much broader area; in particular, it was carried out in agriculture at first, and then expanded to foreign economic relations. This post-1979 reform made achievements such as the 1958 reform could not hope to match.

First of all, rural reform employed two main measures as follows: (1) It increased peasant earnings by sharply raising state procurement prices for agricultural products and reducing the state procurement quota. (2) It replaced the unified management of land and the unified distribution of income of the people's commune system with the household-based contract responsibility system whereby land was leased for long periods to peasants. These two measures quickly stimulated peasants to get busy on production and to provide good management. Accompanying this was full exploitation of the potential of farmland water conservancy facilities that had been built over the previous 20 years through a state investment of tens of billion yuan and a peasant investment of about 100 million hours of labor each year. This potential had not been tapped heretofore because of peasant indifference to production. Thus, following rural reform, stagnation in agricultural production, and the depressed and lopsided condition of the rural economy were turned around in a movement toward general prosperity.

Second, the development of economic diversification in cities and rural villages received vigorous support. From 1979 through 1984, the collective economy and the private economy in cities and towns developed very

rapidly. During this 6 year period, city and town collective enterprises saw an increase of 14.52 million in employment, and employment in the private economy rose from 150,000 in 1978 to 3.39 million in 1984. Rural non-agricultural industries run by collectives and private individuals provided more than 80 million jobs in a rural labor force totaling 370 million.

Third, in the area of relations between the central government and local government, not only was there a continued delegation to province, municipal, and county control of industrial enterprises formerly under central government management, but most provinces employed a financial system of "separate receipts and disbursements, and assigning responsibility at various levels" (or "eating in separate kitchens") to take the place of the former "centralized receipts and centralized expenditures" system. The percentage to be shared between the local government and the central government, or the quota that local governments turn over (or subsidize) was fixed for 5 years. Surpluses derived from local governments' overfulfilling plan quotas and pooling of extrabudgetary funds could be retained by local governments to use as they saw fit, with no need to report every matter to financial authorities at a higher level for approval.

Fourth was implementation of the policy of opening to the outside world, with the welcoming of foreign investors in the running of joint ventures with China. In addition, it was decided to establish special economic zones such as Shenzhen to encourage investment by foreign investors. China also actively engaged in compensation trade, the processing of imported raw materials and samples, and the assembly of imported parts. It also made certain changes in its foreign trade system, principal of which was to delegate authority for certain export commodities that had been formerly held by the Ministry of Trade (and subsequently the Ministry of Foreign Economic Relations and Trade) to local governments, departments, and even individual enterprises.

If one were to characterize the main forms of "delegation of authority and relinquishing of revenues" in rural villages as raising state procurement prices for agricultural products, and implementing household contract responsibility systems, then in cities, particularly in the urban state-owned sector, the emphasis was on expanding enterprises' decision-making authority and the building of material incentive systems such as profit retention. At the economic work conference to discuss ideological guidelines convened by the State Council in September 1978, Li Xiannian said that a principal shortcoming of economic system reform during the past more than 20 years had been the attention placed on dividing up and transferring administrative authority. This had engendered a "cycle" of "delegating what has been taken back, and taking back what has been delegated." In future reform, enterprises must be given an independence that enables them to perform economic

accounting and improve overall economic results voluntarily rather than passively. This approach was subsequently capsulized as "enlivening enterprises is the point of departure and the destination for economic system reform focused on cities," and the main way to "enliven enterprises" is to expand their decision-making authority to enable them to become "relatively independent commodity producers." This idea became the guiding policy in urban economic reform for the period 1979 through 1984.

In the "enlivening of enterprises," in 1978 Sichuan Province selected various industrial plants in which it tried out the expansion of enterprises' authority in the production and marketing of products in excess of plan, withholding and the use of profits withheld, and the appointment of lower level cadres. Later on, experiments with these "expanded authorities" were extended to 6,600 large and medium size state-owned enterprises nationwide, accounting for 60 percent of budgeted industrial output value and 70 percent of profits. The "expanded authority" markedly increased initiative in the pilot project enterprises. However, because of problems with parallel reforms, particularly insufficient coordination with price reforms, the enterprises that had certain decision making authority were neither restrained by equal market competition nor under guidance of a price system that reflected the degree of product scarcity; consequently, enterprise display of initiative was frequently not in keeping with the interests of the national economy. Furthermore, the overly high and overly anxious requirements at the time to develop modern industry exerted very great pressure to increase investment. This resulted in a general loss of control over demand.

The shortcomings of this partial reform in which the main content was "delegation of authority and relinquishing revenues" were identified early. In 1980, a person in a responsible position in the State Council's System Reform Office, the noted Chinese economist Xue Muqiao [5641 2550 2890], pointed out repeatedly the limitations of this kind of reform. He called for emphasis on "reform of the price system," and "reform of the channels of goods circulation," a gradual abolition of the administered prices, and establishment of competitive commodity markets and financial markets. However, in 1982 a controversy arose about the planned economy versus market regulation, and in the course of this controversy criticism was leveled against the concept that a socialist economy could be regulated by markets, the administered pricing system being abolished. During the process of economic readjustment in 1981, however, some officials did not attribute problems to failure to establish market restraints and the absence of a market based macro-control system, but rather to an overemphasis on market relations. Thereupon, a series of actions were taken to limit enterprise participation in market activities, and politically the idea that a "socialist economy is a market economy" was rejected. In such an atmosphere, despite the continued operation of pilot



projects for the "expansion of enterprises' decision-making authority" such as "contracting," rarely did anyone raise the issue of establishing a market economy system.

Following a temporary detour during 1981 through 1983, reform regained momentum in 1984. In May of the same year, the State Council published, "Provisional Regulations Concerning Further Extending the Decision-Making Authority of State-Owned Industrial Enterprises," which spelled out the following powers for state-owned enterprises: (1) to set increased production according to market demand after fulfilling state plans; (2) enterprises may sell their own products allotted them, products produced beyond plan requirements, new trial-produced products, and products not sold by marketing units; (3) authority to select goods supply units for materials under state uniform allocation; (5) authority to allocate enterprise profit retention funds; (6) authority to lease or transfer possession for compensation of all idle assets; (7) authority to staff enterprises themselves, within the organizational limits set by higher level; (8) authority to appoint administrative cadres within plants; (9) authority to select the form of wages, the form of distribution, and the disposition of the bonus fund amassed from retained profits; and (10) authority to join associations that cross sectors and occupations.

In order to "unite" enterprises, in August 1984 the State Council approved the State Planning Commission document titled, "Various Provisional Regulations on Improving the Planning System," which reduced the purview of mandatory plans and expanded the purview of guidance plans and market regulation. These regulations accomplished the following: (1) in the field of production planning, the State Planning Commission instituted mandatory plans for the procurement of seven staple agricultural products, including grain and cotton, which affected the national economy and the people's livelihood, and for the production of 14 primary industrial products including coal and processed steel. Departments and local governments could also hand down command plans for certain major products as well. For all other products "guidance plans" or "complete market control" were instituted. (2) In the field of investment in fixed assets, the state instituted mandatory plans for investment within budget; investment of funds that local governments and units had amassed themselves was their own responsibility. The State Planning Commission instituted only "elastic control over the total amount," and local government authority to approve construction projects was also greatly expanded. (3) In the field of materials allocation, the state instituted planned allocation of fixed amounts of a small number of important materials such as coal, steel and iron, lumber, and cement. Local governments and enterprises could plan production and sale of excess amounts of these materials, and of other materials.

These reforms changed the old system under which enterprises were merely production units passively fulfilling mandatory plans. Their willingness to develop, to

compete, and to make profit all increased greatly, with the result that they universally possessed an active interest in enterprise management. The narrowing of the scope of command plans, and the widening of the market portion increased economic vitality. Thus, the industrial growth rate rose year by year topping 10 percent in 1983, and reaching 14 and 18 percent respectively in 1984 and 1985. However, this rise in the growth rate relied, to a relatively small extent, on increased efficiency. For example, according to our calculations, the annual total factor productivity growth rate for industry in China from 1981 through 1985 was only 0.6 percent. Though higher than the 0.1 percent for the period 1956 through 1979, it was much lower than the 3.8 percent for the period 1953 through 1957. Total factor productivity growth from 1981 through 1985 accounted for 8.2 percent of the growth in industrial output, lower than that of the major industrial countries. Meanwhile, both the inflation rate and the budget deficit were rising markedly. This was particularly true in 1984 when the money supply increased sharply, the annual growth rate of currency [MO] increasing 50 percent. China's national economy was facing the danger of inflation.

China's economists drew different conclusions from this anomalous situation.

Some reformers who approved the "delegation of authority and the relinquishing of revenues" as the main thrust believe that the high speed growth of industrial and agricultural production showed that this strategy had scored tremendous successes. The authority it provided local governments and enterprises advanced the interests of producers, and stirred the initiative of local governments, enterprises, and individual, thereby causing the Chinese economy to "takeoff." They also believe, on the basis of international experience, that a money supply growth rate exceeding that of output value is normal, and contributes to economic growth with little risk, both for developed countries and developing countries, particularly during a high speed growth "takeoff" period.

Other reformers (and they include the writer of this article) reached an entirely different conclusion. They believe that the ups and downs in the economy after 1984, as well as the inability of economic readjustment to achieve anticipated results in 1985 are attributable to certain basic shortcomings in the prevailing "economic structure and economic system." In the economic system, these shortcomings show up primarily in the "doubly distorted" price structure that is occasioned by the simultaneous existence of both administrative control of prices and prices being set by the market, as well as the market fragmentation caused by administrative decentralization. Moreover, these shortcomings positively cannot be remedied by sole reliance on any form of "delegation of authority and relinquishing of revenues."<sup>3</sup> They must be overcome by thoroughgoing and systematic reform. Although reform in which the "delegation of responsibility and the relinquishing of



revenues" is the main component can greatly increase the initiative of local governments, enterprises, and producers, by itself it is not enough to solve the primary economic problem of effective allocation of resources. So long as agricultural production remains substantially of a single family or single household self-sufficiency nature, stirring the initiative of rural family operations can bring about a complete change in the entire agricultural situation. However, in an urban economy of complex divisions of labor, and close dependence among production units, if only independent producers have initiative, but optimized allocation of resources is impossible, good results cannot be obtained. Moreover, this may lead to economic chaos.

Both theoretical analysis and practical experience show that since the effective allocation of resources in a market economy requires reliance on a market price system that is able to reflect the degree of scarcity of resources, until competitive markets are established, a market economy in which the price system is very inequitable (the formal term used in China is a "commodity economy") cannot operate effectively. In the Chinese economy of today, not only have the key markets not been established, but commodity markets have not been truly established either. This is manifested mostly in the following ways: (1) "Double distortions exist in the price system, i.e., both inequitable relative prices (price ratios) among different products that have grown out of the several decade old administrative price fixing system, and multiple and widely varying prices for the same thing brought about by the "dual track system" used in the current price fixing development was that many aspects of the old command economy system had been destroyed, but the market mechanism had yet to be established as a system. Thus a situation existed in the economy of two different systems being unable to play an effective role. So long as dual systems were locked in confrontation, there were many loopholes in administration of the economy, and resources could not be effectively allocated. This increased the difficulty of restraining impulses to expand, and the inflation of demand. At the same time, the "delegation of authority and the relinquishing of revenues" required that the country's treasuries, particularly the central government treasury, increase expenditures when revenues were decreasing. The Chinese economy was confronted by a very large budget deficit and inflationary pressures. Such a situation could not endure for long; it had to be changed as quickly as possible.

#### **1985-1986: "Coordinated Reform of Three Links" or "Micro-Reform" Centering Around Prices**

For a time in 1985 and thereafter, China's economists conducted a thorough analysis of China's economy in a further exploration of a direction for reform. Some economists who had doubts about the advisability of continuing in the direction of "delegating authority and relinquishing revenues" reached a generally unanimous conclusion from their individual research, namely that

the numerous problems in the economic structure and the economic system had to do with the unsystematic and uncoordinated reform that was still going on. The solution lay in promoting integrated reform that enabled the main pillars of the new economic system to be erected fairly quickly. Thus, an approach to reform termed "coordinated reform" or "total reform" was gradually shaped. Every effort was made to make this approach proceed from China's realities, and to knit closely together modern economic theories and the experiences in economic development and economic reform of various countries in the world, including our own experiences, to develop theories and policies pertaining to economic reform. Their main propositions were as follows:

1) A "planned commodity economy" or, in other words, a macro-controlled market economy, was one system. This system would be made up primarily of enterprises making their own management decisions and being responsible for their own profits and losses, a competitive market system, and a macroeconomic control system regulated mostly by markets. As a system, the foregoing three components are interrelated, mutually restrictive, and inseparable. Only when these three pillars begin to be erected can this economic system be efficient. Therefore, economic reform had to be carried out by synchronizing and coordinating these three inter-related aspects.

2) Of the three links cited above, the most consistently difficult one, and also the most backward one for economic reform was price formation and price system reform to insure that the market mechanism would be able to play its role. In this sense, the thesis that "price reform is the key to success or failure in reform of the entire economic system," which appeared in CPC Central Committee "Decisions on Economic System Reform" was completely correct. In order for the new system to begin to become integrated, the focus of reform work at that time had to be on rapid price reform, simultaneous with reform of the tax, fiscal, banking, and internal and external trade systems in order to create the market climate necessary for enterprises to show their vitality in fair competition.<sup>4</sup>

3) As international experience has repeatedly demonstrated, inflation is bad for both development and reform. At the same time, one has to consider how much society can bear, that complete reform of the price system requires that total demand be pretty well coordinated with total demand, that the economic climate be fairly relaxed, and that there is only so much room for maneuver in terms of national financial resources so that when major price reform actions are taken, serious inflation does not result. Consequently, the Party and government have to adopt a decisive attitude, restrain demand, and improve supply. Once the climate has been brought under control to a certain extent, the first group

of coordinated reform measures must be put in place rapidly to allow the new economic system to begin to operate, shifting the national economy into a benign cycle as rapidly as possible.

In discussions during the first half of 1985 and the first half of 1986, the influence of the so-called "complete coordinated reform theory" was strengthened. In October 1985, in particular, passage by the National Congress of the Communist Party of China of "Chinese Communist Central Committee Recommendations on the Seventh 5-Year Plan," provided for adherence to basic balance in social total demand and total supply, avoidance of tension and turmoil in economic life, and creation of a fine economic climate for reform as the guiding thought for the Seventh 5-Year Plan. This served as a basis for the associated reform of enterprises, markets, and the macro-control system in a effort to lay a foundation for a distinctively Chinese socialist economic system within 5 years or slightly longer. This pointed the direction for further pursuit of reform.

Acting in the spirit of the CPC Central Committee "Recommendations," the Chinese government set a policy for economic work during 1986, which was to continue to strengthen and improve macro-control, restrain demand, and improve supply, making good preparations in all regards to enable reform to make decisive steps during 1987.<sup>5</sup> Next, the State Council's Plans Office began to draw up a Seventh 5-Year Plan period reform plan termed an "overall plan for step-by-step implementation." On the basis of the earlier mentioned approach, it was intended at the time that reform during the Seventh 5-Year Plan period should concentrate on prices, tax revenues, fiscal matters, banking, and domestic and foreign trade, reform in other regards, including reform of enterprise management mechanisms, being conducted in coordination with these reforms. The main ingredient in price, tax, fiscal, and banking reforms was the adoption of a policy of "making adjustments before delegating, price reform of principal raw and processed materials, energy, transportation and shipping to be effected within 2 to 3 years, and prices in competitive sectors to be basically released to market forces. Accompanying price reform would be the substitution of an added value tax for a product tax in the building of a natural resources tax system to include a tax on funds, a land use tax, and, a mineral deposit tax as a means of setting up a generally equal competitive climate for all types of enterprises. With price and tax reform as a basis, and after first making clear the functions to be performed by governments at all levels, there would be step-by-step use of a "tax share system" to take the place of the prevailing fiscal system with the taxing of earnings on the basis of enterprises' administrative subordination, governments at all levels taking on too many macroeconomic functions. A banking system suited to a market economy would be built, banks at the grassroots level operating like businesses, and the central bank applying indirect methods widely in the regulation of the

supply and demand of capital to insure currency stability. It was hoped that with the implementation of these reforms, as well as attendant reforms in other areas, after several years of fleshing them out and perfecting them, it would be possible to establish the framework for a new system at the end of the Seventh 5-Year Plan or the beginning of the Eighth 5-Year Plan to enable a market mechanism, under macroeconomic regulation, to play a leading role in the national economy.

Plans formulated from March through August 1986 received the approval of Party leaders in August, but it was not put into effect in the end, primarily for the following reasons:

First, the economic and political correctness and feasibility of the coordinated reform approach was called into question. There had always been controversy about whether reform should be planned in a comprehensive way and carried out in an integrated way. Some reformers felt that the building of the new system was a natural process of development that could not be planned in advance, that only what could be reformed should be reformed, and that reform should go wherever it led. There were even more opponents of reform that focused on the price system, the tax system, and the fiscal system. The main argument of the economists who opposed "totally coordinated reform" was as follows:

1) Price reform requires a tremendous readjustment of various vested interests. It would not benefit all social groups across the board, and it would be fraught with difficulties and risks. Furthermore, the existing "dual track system" for prices and other things already permitted the market mechanism to play a role, so there was no hurry to make a change. The main problem in China's economy lay in property relationships among enterprises not being clearly defined, and enterprises' lack of decision-making authority. For these reasons, price reform should be delayed, and priority given to enterprises' "ownership system reform," or "rebuilding of the macroeconomic foundation" of the national economy.<sup>6</sup>

2) Administrative decentralization or local government decentralization is a road that must be taken in China's reforms. In a complex, and extremely varied developing country like China, if "the road of a unified market is taken," "a complete deterioration of production patterns may occur." Moreover, in China, "the economic vitality of the whole society, can neither be totally encompassed by central planning, nor can the market mechanism be relied upon as the sole system in the country. Thus, economic decentralization must be overcome— "the unrealistic illusion that either the central government takes charge or enterprises take charge," the mandatory plan authority delegated by the central government being "accepted" not by enterprises directly, but by local governments.<sup>7</sup>

3) The "tight operating" situation of supply being unable to meet demand is the normal state of a socialist economy. Even though a more relaxed economic climate can be created, it will only deepen the outcome of reform and not be a premise for complete reform. In a developing country such as China, for the foreseeable future the national economy's aggregate demand will outstrip aggregate supply. If one supposes it is possible to use artificial macroeconomic controls to suppress demand and limit the currency supply, not only would this be bad for high speed development, but it would also damage vested interests of all kinds, thereby causing a weakening of support for reform. Consequently, a "tight" macroeconomic policy is not desirable, and a relatively loose climate is positively impossible during reform as a whole, particularly before enterprise reform is carried out.<sup>8</sup>

During the last quarter of 1986, these opinions became dominant, and the coordinated reform plan that included the reform of prices, taxes, fiscal matters, banking, and trade was abandoned. The focus of reform shifted to the reform of the enterprise management mechanism in which the "contract management responsibility system" was the main form. In accordance with the views of "micro-reform first" proponents, one major achievement during 1986 was getting rid of the "atmosphere and pressure" to accelerate the transition from the old system to the new system, and a good job done of carrying out "long-term preparations for efforts by several generations," for completing a "historic turn" in policy decision thinking. As a result of this turn, in mid-1986 China's economy began a "consistent upturn," and a "momentum toward steady development appeared."

Second, as far as the proponents of "coordinated reform" are concerned, the main reason it was impossible to carry out the coordinated reform of prices, taxes, fiscal matters, banking and trade that was planned in 1986 was that the good climate needed for reform had not appeared. Since a fairly relaxed climate is a necessary prerequisite for coordinated reform, the so-called "coordinated reform proponents," are usually supporters of a stable economy and strengthened micro-control. They believed that in there should be a continued strengthening and improvement of the policy of macro-control during 1986, and that a rather tight macroeconomic policy should be adopted in order to prepare a good economic climate in which reform could make decisive steps during 1987. However, it was not easy to persevere in this course, which frequently encountered opposition from those who gave priority to high speed growth, and those who derived substantial benefits from the existing system. In particular, following the sharp decline in the speed of growth in industrial production to 0.9 percent during February 1986, an increasingly large number of people did not approve adhering to a rather tight macroeconomic control policy. In March 1986, the central bank decided to loosen credit controls, and currency supply rose sharply over what it had been during the

second quarter. As a result, there was a general increase by about 25 percent in currency supply (M2), which was much much more than the the 7.4 percent growth rate of national income. This presaged fairly large inflationary pressure in 1987. Even those who designed the coordinated price, tax, fiscal, banking, and trade reform plan acknowledged that conditions did not exist for the implementation of this plan in 1987. The urgent matter of the moment was greater determination to strengthen control over the economic climate in order to create conditions and prepare well for the coordinated reforms so as to be able to make decisive steps as quickly as possible. To become intoxicated with short-term high speed growth and showy "reforms" and miss opportunities again would compound mistakes.

#### Brief Concluding Remarks

The foregoing historical exposition shows two different views about the choice of reform strategies in which a different perception of the market economy and its operating mechanism is fundamental. The focus of controversy about actual policies is on whether reform can center around price reforms and the building of a market system. Those who do not approve of a socialist economy being a market economy, and those who do not understand the role of the price system in a market economy may suppose that delay of price reform, or even no price reform, may be more beneficial and carry less risk.

"Complete coordinated reform proponents" disagree about whether the enterprise management system or the ownership system carry least risk and hold the possibility of greatest success as strategic options in reform centering around price reform. We feel that reform of the state-owned enterprise management system, including a separation of state agencies functioning both as regulators of the social economy and representatives of the owners, as well as the establishment of companies in which juridical persons are the main shareholders, is extremely important and should be begun at once. However, this should not be a reason for delaying price reform. This is because until such time as prices are orderly, the market system is established, and a climate of equal competition exists, enterprises cannot genuinely free themselves from "vertical subordination" to administrative agencies at a higher level, and exercise decision-making authority about their output structure, arranging marketing relationships, and making investments. Although enterprises can participate in market activities to a certain extent under these conditions, they will come up against intense administrative interference, a very incomplete market mechanism, and a situation in which the conditions for enterprises doing business is decided by administrative authorities. They will only be able to do as Janos Kornai said: "Keep one eye on the market and one eye on higher authority," and in the conditions prevailing in China, most important will be to keep an eye on higher authority. In an abnormal

market environment, the behavior of a substantial portion of enterprises can cause a departure from the correct road for making profits of relying on the improvement of administration and management, controlling inflation, instituting fairly equitable distribution, as well as controlling "regressive" practices such as trying to make staggering profits from price differentials, as well as problems with spreading corruption in the misuse of authority for private gain, which cannot be easily solved. Therefore, the longer coordinated reform aimed at building a market mechanism is delayed, the more disadvantageous for both development and reform. Experiences in reform of some Eastern European socialist countries show that once reform has begun and the old system has been gradually destroyed, unless the first steps are taken to build a competitive market system within a short period of time, an economy will shape up in which various administrative coordinate methods continue to be used instead of a money economy coordinated by markets. This is an economic system in which scarce resources cannot be effectively allocated that can only lead to stagflation. In such a system, after as little as 3 to 5 years or as many as more than 10 years, without exception, economic reform and economic development in these countries sank into a predicament in which it was both impossible to advance or retreat.

#### Footnotes

1. Gu Zhun, "Cursory Discussion of Commodity Production and the Laws of Value in a Socialist System," JINGJI YANJIU [ECONOMIC RESEARCH], third quarter, 1957.

2. In "Modern China's Economic System Reform," Zhou Taihe [0719 1132 0735] et al. capsulized the nature and consequences of this "great change in the economic system centering around blind delegation of authority" as having the following aspects: "1. blind delegation of authority to enterprises, thereby intensifying the chaotic situation in the administration and management of production"; "2. failure to obtain anticipated results from the large scale contracting of financial receipts and expenditures, distribution of materials, and investment in capital construction"; and "3. the simplification of the tax collection, credit, and labor wage systems weakened the role of economic levers." (See pp 134-146 of the work.)

3. Refer to Wu Jinglian, Hu Ji [5170 1323] et al., "Effective Restraints on Economic Growth," JINGJI YANJIU [ECONOMIC RESEARCH], Issue 5, 1986, and "The Current Working Capital Problem and How To Solve It," CAIMAO JINGJI [ECONOMICS OF FINANCE AND TRADE], Issue 8, 1986.

4. A pertinent thesis in an article by the author titled "Economic Fluctuations and the Dual System," CAIMAO JINGJI [ECONOMICS OF FINANCE AND

TRADE], Issue 6, 1986 reflects the views of coordinated reform advocates at the time toward the reform of prices, taxes, fiscal system, and banking.

5. Premier Zhao Ziyang's speech of 13 January 1986 to the National Planning Conference and the Economic Work Conference fully explained this policy. (See RENMIN RIBAO, 14 January 1986).

6. Li Yining pointed out that "the failure of economic reform may be attributable to the failure of price reform; however, success does not hinge on price reform, but rather depends on ownership system reform." Therefore, he proposed the delay of price reform, figuring that approximately 50 years (or 15 years) might be spent in reform of the ownership system after which reform could move along a smooth highway (BEIJING RIBAO, 19 May 1986; LILUN XINXI BAO, 3 November 1986; and SHIJIE JINGJI DAOBAO [WORLD ECONOMIC HERALD], 8 November 1986. Hua Sheng [5478 3932] et al. maintained that the "dual track system" for prices and other things was a "magnificent creation of Chinese economic system reform." It "enables the smashing of the unequal 'cast system' existing among enterprises before the transformation of the entire ponderous operating system is completed," and it enables "enterprises to throw off the shackles of administrative subordination and differences in rank." Consequently, there is no need to change it. "The key link in urban economic reform" should be "restructuring of microeconomic cells." (See "China: Problems and Approaches in Further Reform," BEIJING RIBAO, 3 March 1986; and "Transformation of Economic Operating Models," JINGJI YANJIU [ECONOMIC RESEARCH], Issue 2, 1986.)

7. See Hua Sheng, He Jiacheng [0149 1367 2052] et al.: "Transformation of Economic Operating Models," JINGJI YANJIU [ECONOMIC RESEARCH], Issue 20, 1986. Also see "Hasten the Pace of Reform, Thoroughly Deepen Reform—On the Tasks and Paths of China's Economic Reform" prepared by the Theory Unit, Beijing Young Economics Society, ZHONGGUO; FAZHAN YU GAIGE [CHINA: DEVELOPMENT AND REFORM, Issue 9, 1987.

8. See Li Yining: "Several Theoretical Problems in Economic Reform Requiring Urgent Study" (1986), SOCIALIST POLITICAL ECONOMICS, Beijing: Commercial Press, 1986.

#### FOREIGN TRADE, INVESTMENT

**Ningxia's Cultivation of Islamic Market Analyzed**  
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[Article by Da Guoqing 4594 0948 1987: "Turning Toward the Islamic World—A Cursory Analysis of Ningxia's Special Advantages for Economic Development"]

[Text] The Ningxia Hui Autonomous Region is located in the interior of China, and although it does not have the geographic and communications advantages of the

coastal regions of eastern China with respect to opening up to the outside world and the development of an export-oriented economy, and also lacks the opportunities of the frontier provinces for border trade, it is the only administrative entity of provincial rank which is predominantly populated by Hui nationals. It has, therefore, unique advantages for intensified economic contacts with the Islamic countries of the Middle East and for opening up the huge market of the Islamic world. In this respect, it could play a role which could not be equaled by any other province. Since our 7 million compatriots of Hui nationality in the Ningxia Hui Autonomous Region have close relations with the more than 9 billion Muslims living in over 90 countries and territories of the world, with whom they share religious beliefs and customs, Ningxia is in an extremely favorable position for the development of economic and trade relations with these countries, also for attracting investment capital and technologies, and for economic, cultural, scientific, and technological exchanges. Because the Ningxia Hui Autonomous Region is China's only Islamic province, Ningxia should indeed use to advantage the ethnic customs and habits of its inhabitants and their particular partialities in consumption, prominently emphasize their particular Muslim strongpoints, turn their attention toward the Islamic world, thus bring Ningxia's unique advantages fully into play, and with due consideration for its own ethnic peculiarity, develop an outward-oriented economy with special Muslim characteristics. Within the overall national framework and strategy of opening up toward the outside world, the establishment of economic relations with the Islamic world, in particular with the countries of the Persian Gulf (oil-rich Saudi Arabia, Kuwait, the United Arab Emirates, etc.), has been an undertaking that has so far been insufficiently pursued. It is our understanding that Ningxia has already established economic and trade relations with over 50 countries and territories during the Sixth 5-Year Plan, when Ningxia, as a start, created for itself a foreign market, mainly in Western Europe, Japan, Hong Kong, and Macao, by setting up a marketing network abroad. It was just the Middle Eastern market, in which the particular advantages of Ningxia could be fully brought into play, that Ningxia has so far left unexplored. In what respects could the Islamic world prove an area of promising future development? First, it offers great potential for labor exports. Because many Islamic countries lack technology and are short of manpower, they are large-scale importers of foreign manpower for their construction projects, which makes their area an important market for engineering contracts. In West Asia and North Africa, there are 5.5 million foreign workers, among them over 700,000 Filipinos, who annually remit home up to \$1.5 billion. On the other hand, China is providing only somewhat over 27,000 person-times, who create only \$4 million in foreign exchange, although China has a very large potential and could export such labor as translators, cooks, amahs, religious personnel, teachers, doctors, nurses, and technical personnel for the manufacture of special Islamic products.

Because of the religious differences, the European countries, the United States, Japan, and South Korea have experienced many difficulties in the course of investment and construction in Islamic countries. In 1985, an American transnational corporation was successful in its bid for an engineering project in Saudi Arabia, but since the project was to be located in Mecca, the "holy district" closed to non-Muslims, the American party had to hire Muslims to carry out the job, while its own technical staff had to stay outside the forbidden zone and had to direct the work through TV remote control. There would be no such trouble if Ningxia would dispatch its workers. To facilitate labor exports, Ningxia should increase its information links with these countries, establish service facilities for exchanges, also links in the fields of information, banking, post and telecommunications, and consultations, start direct international airlines and establish convenient and fast air lanes to these countries.

Besides this, there are many more items that could be included in the development of an Islam-oriented economy, for instance:

1. Eating. Our compatriots of Hui nationality have many particular customs and taboos, such as the prohibition to eat the meat of non-ruminates, such as pig, horse, donkey, mule, or dog. For the slaughtering of cattle, sheep, chicken, ducks, and other animals and fowl for consumption, the Imam has to be asked to do the slaughtering. Even in special circumstances, the animals may only be slaughtered by a Muslim who knows the rules and prohibitions for slaughtering of animals. It would, therefore, appear possible that investment of a limited amount of capital in Ningxia for an intensive development of a Muslim foodstuff industry could create a broad market, in which quick results and high economic returns could be achieved with limited investment. Because Ningxia is located in the interior, with unfavorable transport facilities, it would be advisable to first develop canned foodstuffs, dried food, and semifinished products after initial processing. At present, the main problem for the autonomous region is that it has so far not produced products or famous brand items with special Ningxia characteristics, and has never given attention to the manufacture of Islamic foodstuffs. Ningxia should apportion a certain amount of its manpower, material resources, and capital, and decide to devote these resources to evolve certain Ningxia Muslim foodstuffs as Ningxia's "products of excellence," make a strenuous effort to open up the Muslim foodstuffs market in the Islamic countries and maintain itself in these markets.

Muslim foodstuffs could be canned fowl and other meats, manufactured strictly according to ethnic customs, and also lines of products from Chinese wolfberry, shaji [3097 2765], and pollen, which are all special products of the Ningxia area. There are also instant noodles, the thin dried type of noodles, gruel, milk powder, ingredients for tea drunk from a covered bowl, pastries, candies, canned fruit, tourist foods, drinks,

edible oil, etc. All Muslim foodstuffs should be marked with the word "Muslim," and the label should show in Arabic writing that manufacture was supervised by the Islamic Society of the Ningxia Hui Autonomous Region, to show that the products are honestly priced, genuine goods. Considering the structural composition of imports in the Middle Eastern countries, the trend is for a future decline in the proportion of machinery and transport equipment and for an increase in the proportion of daily necessities and foodstuffs. At present, imports of agricultural products by the Arab countries alone account for about 15 percent of the total imports of agricultural products throughout the world. In the one year of 1985, Iran spent \$2 billion on the importation of such food and agricultural sideline products as grain, edible oil, meat, and milk powder. If the Ningxia Hui Autonomous Region would energetically develop Muslim foodstuffs, it could, therefore, count on a broad market, domestically and abroad. In addition to directly producing Muslim foodstuffs, the Ningxia Hui Autonomous Region could also become a base from which Islamic countries could obtain experts in Muslim cooking. We may also include in the area of what is "eaten" the medicinal products of which Ningxia could also produce "products of excellence." Although medicinal products need not be labelled with the word "Muslim," they should show the designation "Ningxia Hui Autonomous Region," so that all Muslim compatriots would be well inclined toward the products, and happy and willing to buy them. Furthermore, by analogy, we may think of anything else that goes to the mouth and tap further potential, for instance, toothpaste, toothbrushes, lipstick, and also soap and cosmetics for hand and face. The manufacture of all these items should be given careful attention, all would be equally welcome in the markets of minority nationals.

2. Use. Since our Hui compatriots are not only forbidden to eat certain foods, but also must not use cooking utensils, cups, chopsticks, containers, and plates that have contained or had contact with them, it would appear that apart from "eating," much could be made of what the word "use" stands for, namely development of a whole line of products of the light industry. For instance, among eating utensils, there is, apart from various kinds of aluminum pans, dippers, pots, also chinaware, such as bowls, spoons, tea kettles, tea cups, etc., also earthenware jars, coffee utensils, etc., all these could be given consideration. Ningxia is richly endowed by nature with favorable natural resources for the manufacture of these articles and can develop manufacture of these articles on a large scale. All should be clearly marked "Ningxia Hui Autonomous Region" on their outer packaging. Furthermore, there is a very broad scope for the manufacture of plastic products, such as buckets, baskets, washbasins, footbasins, and other containers and household utensils. Attention must be paid to have them suited to the customs of our Hui compatriots, and to produce utensils which they will like to use. There are also other daily necessities, such as soap, washing powder, toilet paper, and woolen blankets.

Ningxia's soap and washing powder must be further improved in quality; its woolen blankets and toilet paper are nationwide considered of the highest quality, it is only that the labels are not clearly marked "Ningxia Hui Autonomous Region," thus do not show themselves off as something especially Muslim, therefore will not attract the attention of Hui compatriots. This is something that should be attended to and changed.

3. Apparel. Male Muslim compatriots generally wear Hui caps, i.e. small brimless white or black caps. The white caps are made of cotton; now many use dacron as the raw material. The black caps are mostly made of gabardine. The caps are of either five-, six-, or eight-cornered. Older men also wear hard helmet-shaped headgear. In cold weather they also wear black earmuffs. They like to wear white pants, white socks, and black sleeveless jackets. As to footwear, they like to wear cloth shoes with square or round openings, but now they also wear leather shoes, as long as they are not of pigskin. The Hui women usually wear small white round hats and cover their heads with kerchiefs made of gauze, silk, satin, and dacron. For attendance at religious services, Hui people usually also have a special formal attire. For weddings the Hui women wear red dresses made of red silk and red gauze, and use red rugs. Besides, gloves, jackets, pants, shoes, and coats made from cattlehide are much welcomed by our Muslim compatriots. To give more thought to wearing apparel, setting up plants for the manufacture of typical ethnic wearing apparel, producing wearing apparel, shoes, stockings, bedding, etc. liked by and suited to the customs of the Muslim people holds great prospects.

4. Housing. Ningxia already has a construction work force of a certain scale. The Ningxia Construction Company has performed well in contract work in Western Asia and North Africa, and was highly praised by the governments of Benin, Yemen, and Egypt. For a more effective opening of the Islamic market, it is necessary to make a special and systematic study of and plan the construction of mosques, guesthouses, large and small hotels, restaurants, kindergartens, Muslim middle and elementary schools, Islamic cold storage plants, stores, etc., in special Islamic characteristic style. The Ningxia construction work force must not only be an authority for domestic Islamic constructions, but should export its talents, its technical, drafting, and construction work force abroad, and could also develop the export of construction materials.

5. Travel. Ningxia is located in the interior, has imposing mountains and streams, a landscapes of special beauty, abundant resources for tourism, and could develop tours particularly for viewing cultural relics of the Western Xia regime, tours of the desert, tours to—as the saying is "the beauty spot on the northern frontier, which is not inferior to the lands south of the Chang Jiang." There would also be tours to cultural and historical relics, for instance to the old site of the Shuidonggou, the Xumishan grotto, Ningxia's part of the Great Wall, the rock

paintings of the Helan Mountains, the graves of the Western Xia rulers, all these are tourist attractions. Besides these, other tourist attractions of ethnic interest should be developed, for instance, sightseeing tours, fully demonstrating the customs and special Islamic life of our Hui compatriots, food tasting, participation in ethnic festivals, the Corban festival, the festival of fast-breaking, and other important festivals, which could be highlights of tourism with ethnic interest. In this way many more tourists from abroad will be attracted to visit Ningxia. To support the tourist trade, Ningxia could set up a professional school of Islamic tourism, especially to train guides, drivers, cooks, and translators. If conditions would warrant, Ningxia could also set up an Islamic tourism institute to train higher ranking administrative staff for the tourism industry.

The Ningxia Hui Autonomous Region is in a favorable situation to develop an Islamic economy, but for a long time past, the economic development of Ningxia has always remained at a medium or low stage compared with the rest of the country. The area with the largest concentration of our Muslim compatriots, this "Xihai" of old, is no doubt one of the poorest areas of the nation, and the difficulties to have this area now enter competition in the international market can well be imagined. Many critical difficulties are beyond the power of Ningxia itself to overcome, and would require a favorable policy by the central government to help the local economy. The state should allot a certain special fund and apply a special policy to support and develop the Muslim economy. Foreign enterprises should be allowed to enter Ningxia to set up factories, to establish bases for export products, financed and managed in Sino-foreign cooperation, utilizing the huge capital in the Islamic countries, especially of the oil-rich Arab countries, establishing in Ningxia a base and export entity with full community involvement, and developing commodities of excellent quality. The state should make Ningxia into its "window" or "breaking-in point" toward the Islamic world, allowing Ningxia to set up special resident trade organs, or exhibition and marketing centers, in the Islamic countries. Ningxia should also dispatch special personnel to the target or potential markets for on-the-spot studies or even for permanent residence there. Ningxia should set up a network for the gathering of commercial information on the Islamic countries, to do service in the interest of developing the Islamic economy. In my opinion, establishment of a special Islamic economic zone in Ningxia would be fully in accordance with China's demand for overall opening up at all levels.

China is now in the primary stage of socialism, its productive forces are not yet sufficiently developed, and Ningxia in particular is economically a comparatively backward area within the nation. In the face of this area's realities, carrying out effective measures for economic development, and taking advantage of its favorable circumstances, would be beneficial for the promotion of specialization in the production of this area, promotion of commodity economy, and for the socialization of

production. The measures would have to apply a limited amount of capital in places where it would be most needed and where it would be most effective. Ningxia must make development of the Islamic economy its break-out point for an economic upsurge, and make this development its own, very unique contribution to China's socialist construction.

## POPULATION

### Commemorative Article on Population Growth, Economic Development

40060284 Beijing RENKOU YU JINGJI

[POPULATION AND ECONOMICS] in Chinese

No 6, 23 Dec 88 pp 13-15

[Article Commemorating the 10th Anniversary of the 3d plenum of the 11th CPC Central Committee by Jiang Zhenghua 5592 2973 5478 of the Xian Jiaotong University's Population Research Center: "China's Population Growth and Economic Development"]

[Text] The rate of increase in China's population has declined rapidly since the 1970's. The 1987 birth rate has fallen by more than one-half compared to 1970. The success of family planning is obvious. In recent years, however, the birth rate has resumed its climb in many regions, and many people are worried. Population control is an issue many people are concerned about. Here, I would like to explore the issue from the perspective of the short-term and long-term relationship between population increase and economic growth and from the point of the developmental objective and constraints.

### I. Reasons for the Decline in the Birth Rate

The change in the birth rate is attributable to many factors. Results of analyses using different statistical methods to measure the magnitude of these effects have turned out similar. There is no doubt about the accomplishments of family planning. In the 17 years from 1971 to 1987, inclusive, it is estimated that a total of about 110 billion fewer children have been born because of the promotion of various contraception methods. This averages out to be 6.5 million fewer births per year. From this vantage point, we can divide those years into three periods: the years prior to 1978 marked the beginning of family planning; it was a period when various birth control measures were put into place, and there was a significant increase in the production of medicine and medical equipment, and contraception methods were beginning to be accepted by the masses. During this period, the decline in the birth rate rose gradually from 2.3 million fewer births each year to 7 million fewer births. From 1979 to 1985 was a period in which family planning was most efficacious. Birth control resulted in 8 million fewer babies being born each year, and the number grew to more than 10 million a year; 1984 was the record year which saw 13.5 million fewer births. After 1986, because of other factors, it became obvious that the birth



rate has resume its climb; the rate of decrease in the birth rate fell sharply—to 6.66 million in 1986 and 4.23 million by 1987. This trend demands serious attention.

The effects of socio-economic, cultural, and educational factors can be analyzed using various statistical methods. Study results show that among all factors, education plays the most important role. Raising the average years of education women receive can postpone their first marriage and can raise their hygiene and health care standards and in turn lower the infant mortality rate. It can also enhance women's status at home and change the traditional concept about child-bearing and in turn reduce the number of children each woman bears. Combining all these effects, it is estimated that, based on the average years of education prior to any kind of birth control, each year's additional education can lower the national birth rate by almost 0.6; the effect is most significant among women with junior-high and middle school education in the rural areas. But the years of education have only limited direct effect on the overall birth rate: the same additional year's education has the limited direct effect of lowering the overall birth rate by only 0.034.

The factor which has the most significant direct effect on the birth rate is the average age at which women get married for the first time. In the above calculation, raising the average age of women entering their first marriage by one year can lower the overall birth rate by 0.578. One of the main reasons for the birth rate to rise again in recent years is women are getting married at a younger age.

The decline in infant mortality rate boosts the parents' confidence that their children will survive and this causes the overall birth rate to decline. Infant mortality rate is the second most important factor directly affecting the overall birth rate. In promoting family planning in the economically backward, poverty-stricken regions, it is very important to provide better sanitation conditions as a supplementary measure when educating the people about birth control.

Of course, the most basic among all factors are economic growth and per capita income. Although these have minimal direct effect on the overall change in the birth rate, their indirect effects via other aspects are significant. Perhaps when the per capita income reaches a certain level, people's lifestyle will change qualitatively, and their consumption attitude will be completely different, and then economic income will have a significant direct bearing on the birth rate.

Different factors may play the key role in affecting the birth rate at different times. In the early to mid-1970's, late marriages played an important role in lowering the birth rate. Since the 1980's, late marriages seem to have reached the limit for some people, and it has become increasingly difficult to further raise the average first marriage age of women. If we want to continue to lower

the birth rate, we must give full play to the relationship between birth rate and other socio-economic, cultural, and educational factors. We must suit measures to local conditions and take the appropriate steps.

## II. The Impact of Population Change On Economic Development: A Short-Term Analysis

How does the success of birth control help promote economic growth? How much will the resumption of high birth rate affect China's social-economic development? These are important issues worth looking into. The short-term effect of population growth on economic development can be analyzed in terms of the direct and indirect effects: in order to raise a new-born baby and nurture it until it becomes a member of the labor force, both the state and the family have to pay a price. Without detail statistical information, I can only make a rough calculation based on past surveys conducted by the pertinent departments and on changes in recent consumer price indices. The results show that based on current prices, to raise one member of the labor force in the city will cost 13,275 yuan, and 28 percent of which, or 3,840.74 yuan, is cost to the government. To raise a unit of labor force in the towns and townships will cost 8,771.18 yuan, and 12 percent, or 1,015.38 yuan, is paid by the state. And to raise a unit of labor force in the village will cost 2,909.37 yuan, and 1.26 percent, or 367.01 yuan, is cost to the state. Earlier, we said that the promotion of birth control has caused 110 million fewer children to be born, and if we assume that 30 percent of those children would have been raised in the cities, then it is estimated that the state have saved close to 200 billion yuan in expenses for nurturing these children; of course, a portion of that cost is only future cost. Family savings as a result of lower birth rate is difficult to ascertain, because if a family does not spend the money on children, it may spend the money on something else. So, as far as China is concerned, fewer children means the country saves an average of about 13 billion yuan per year in direct expenses. This figure may be overstated, because in the cities, the amount of investments in urban construction and urban structural maintenance expenses does not vary substantially with the number of children, but these two expense items account for more than one-half of the above cost figure, and therefore the actual investment savings may be around 6 billion yuan per year. In other words, fewer children has a clear bearing on reducing the state's financial burden, but the direct effect is insignificant.

More important is the indirect effect of family planning on economic growth. Given a fixed consumption level, a higher rate of birth will require more consumption goods, and to produce these consumption goods will require more workers, and in turn, more investments, and so on. This produces a long chain of demands on the economy because there are simply more people. If the population should increase by 1 percent a year, the rate of increase in the national income must exceed 1 percent just to maintain the existing consumption level. Based



on China's investment coefficient, if the population increases by 1 percent per year, just to maintain the existing living standard, the national income will have to increase by about 3 percent. If we assume an average of 6.5 million fewer babies are born each year, this is equivalent to boosting the national income by an average of more than 10 billion yuan per year, and in recent years, it is equivalent to boosting the national income by 15-18 billion yuan. This is one of the major contributions of family planning. It is obvious without even going into the investment aspect of family planning that the short-term economic benefits of birth control in China is outstanding. We must maintain this program permanently.

The birth rate has begun a rising trend in recent years. From the point of the short-term economic effects, the amount of damage the higher birth rate can produce will equal the amount of benefit birth control has generated. But more serious is its long-term economic effects.

### III. Analysis of the Long-Term Economic Effects of Birth Control in China

Population is very much an inert system; the current demographics and fertility condition will affect the long-term population growth in the future. If China's population can be controlled at the level of around 1.25 billion people by the year 2000, China's long-term population will stabilize at around 1.6 billion people. If China's population should reach 1.3 billion by the year 2000, then China's stationary population will top 1.9 billion. If by the year 2000, China's population should exceed those levels, it would take much longer before China's population will stabilize, and it is possible that the population may not stabilize until the end of next century, pushing closer to 2110, the year the United Nations has projected that the world population would stabilize. If it takes longer to stabilize the population, and if the stationary population is bigger than projected, what would the effect be on the long-term economic development? This is an important question which must be thoroughly studied in order to determine the right kinds of policy.

The most important question perhaps in the population capacity. China is not a country rich in resources. Take cultivated land, water, and forests, three resources which are essential and for which there are no substitutes—China faces a grim situation on all three counts. Let's talk about cultivated land first. Based on estimates made by satellite telemetry and state land survey and on other materials gathered, China has about 1.9 billion mu of farmland, and the per capita cultivated land is only 40 percent of the world average. It has been forecasted that for various reasons, including alternative land use, soil erosion, salinization, granulation, and furlough, even less land will be available in the future, and even with the newly developed farmland, by the year 2000, there will be only 1.7 to 1.8 billion mu. Soil quality may continue to deteriorate. Even under fairly favorable conditions,

China will have no more than around 1.5 billion mu of permanent farmland, and unless there is a major scientific and technological breakthrough to improve the soil quality substantially, these are the best estimate we can make at this time. China's rivers have an annual flow capacity of 2,614.4 billion cubic meters, comparable to that in the United States and Indonesia, but those two countries are far less populated than China. Timber is a resource China has always had a shortage of. Many regions which used to be more than 50 percent or 60 percent forest-covered are now only 30 to 40 percent covered. Nationwide, the present forest coverage rate is only 12 percent. More serious is that in some very poor regions with rapidly growing population, people are ruining the forests and wilderness areas by burning grass, roots, and timber for want of other forms of fuel, and this has become a vicious cycle—it has accelerated soil erosion and jeopardized the environment. Based on the comprehensive analysis of China's irreplaceable resources and the demands of social-economic development, a population of 1.6 billion in terms of stationary population is what this country can sustain. Exceeding this figure, we will see a rapid deterioration in many of the indicators, and there will be irreversible damage done to the ecology. We must treat this issue seriously; we must prepare ourselves and formulate a major program of lasting importance for the sake of our children and our children's children. Each cubic meter of Huanghe's water contains 37 kg of silt, far exceeding the silt content of the river with the second highest silt content in the world. Today, each cubic meter of Changjiang's water contains 4 kg of silt, ranking third in the world. If we fail to control the soil erosion in these two rivers which nurture the whole of China, if we let the situation deteriorate under the pressure of increasing population, our future generations will face an exceptionally grim choice, and they will be forced to take even sterner measures in terms of population control.

### IV. A Short Conclusion

In short, China's has accomplished much in the area of family planning, but the pressure on economic development exerted by the growing population has only been eased, not eliminated. Socio-economic, cultural, and educational progress have brought impetus to birth control, but many factors still contribute to the maintenance of a high birth rate even under the new conditions. Family planning is still a task we must continue to pay attention to.

In the short run, birth control has eased the economic burden and no doubt has benefited economic development. But what is more important still lies ahead. China's population will soon reach the upper limit of what the country's resources can support. The efforts we put in to control the population today will lower the stationary population in the future. This is more important to China's long-term development.

To control the population increase and promote economic development, we must adopt some comprehensive measures. In the rural areas, we should combine family planning, poverty relief, and the "spark plan," and let family planning generate some direct microeconomic benefits for the families. Investments should be allocated to guarantee the needs of a certain educational standard and guarantee women a junior middle school education, and laws should be passed to make sure that parents too are responsible for their children's receiving that level of education. Getting married and having children at a more mature age have a tremendous effect on fewer births, and we must continue to encourage later marriages and births. We should adopt some new measure to give tangible benefits to people who marry later and have children later and to families with only one child. We can use housing as a reward in the cities and offer technological assistance in the villages as incentives to encourage and mobilize the people. To do a better job with family planning, there seems to be a need to adopt the following measures: one, we should give the family planning department more power and let them control the allocation of some goods and materials and funds; two, we need to improve the quality of the cadres involved in family planning, especially cadres at the primary level, and we should give them more support and offer them promotion opportunities. I feel that if we combine all these measures, we can gradually change the present incongruity between the population and the economy.

## AGRICULTURE

**Science To Improve Water Conservation**  
40060355b Beijing JINGJI RIBAO in Chinese  
21 Feb 89 p 1

[Article by staff reporter Wang Yadong 3769 0068 2639:  
"Water-Saving Agriculture Places Hope on Science"]

[Excerpt] [Passage omitted] China has 9.6 million square km of land and 2,800 billion cubic meters of water resources, ranking sixth in the world. But once divided by the huge denominator of over 1 billion people, per-capita water resources are less than a fourth of the world level.

China has a huge population and limited water resources, but it happens to be an agricultural country. About 85 percent of the nation's water consumption is for irrigation, but it still cannot satisfy the demands of agriculture. The shortage of water has restrained the development of agricultural production.

When he was the premier, Comrade Zhao Ziyang proposed the idea of water-saving agriculture. He said, "The shortage of water is so serious in China that both industry and agriculture need to economize on water.

This should become a major policy of China's economic construction. Northern China, in particular, should engage in the kind of agricultural production that would save water."

During his inspection of Hebei and Shandong provinces in June 1988, Premier Li Peng repeatedly emphasized the importance of water-saving agriculture in light of the actual water shortage condition in the Huanghe, Huaihe, and Haihe plains. He urged scientific and technological personnel at the Chinese Academy of Sciences to consider it as a major task of research.

To push China's grain production to a still higher level, we should concentrate on developing Huanghe, Huaihe, Haihe, Sanjiang, and Songliao plains. But these areas are located north of Qinling mountain and Huaihe river where water resources are obviously below the national level. Since there is not much potential in developing existing water resources, we must take the road of water-saving agriculture if we want to increase grain production.

Some people think that water-saving agriculture is nothing more than economizing on agricultural water consumption. In fact, it involves a series of issues concerning irrigation technique, farmland water retaining and storage technique, water-saving cultivation technique, distribution of crops, and the development of water-saving materials and drought-resistant variety. Due to reasons concerning control, management, technique, and policy, there has been serious waste in the agricultural water consumption of northern China. The utilization rate of canal water is only 45 percent and that of well water is 70 percent. For the production of 1 kg of wheat, China uses 40 percent more water than developed countries. The acreage of irrigated farmland has stayed at 720 million mu since 1978. In recent years, some motor-pumped wells and rivers have dried up one after another, thus further reducing the acreage of irrigation. "There is a canal but no water flows in it; there is a well but no water can be pumped"—this is a common sight in China.

Many localities are carrying out water conservation projects. Can we combine the promotion of water-saving agriculture with water conservation projects? Xu Yuexian [6079 6390 0341], deputy director of the Institute of Geography under the Chinese Academy of Sciences, is in charge of the comprehensive research of water-saving agriculture in Huanghe, Huaihe, and Haihe plains. He suggested that when we build new canals, we line the walls of canals and use underground water pipes to minimize the water leak and evaporation of water canals. This project alone would expand irrigation acreage by 20 percent and get twice the results with half the effort. Adopting and popularizing farmland water retaining technique in areas where irrigation conditions are not available can help soil retain as much natural precipitation as possible and help crops use water more effectively.

As soon as the year of dragon was gone, experts at the Academy of Sciences came up with a great blueprint for the development of water-saving agriculture. They took advantage of multiple disciplines, organized over 100 scientists and technicians to form a multi-force joint operation, and conducted case investigation and information analysis on water-saving agriculture of Huanghe, Huaihe, and Haihe plains. They would carry out complete farmland water-saving experiments on three 10,000-mu lots. They set forth the goal of striving to increase the grain production of the Huanghe, Huaihe, and Haihe areas to 25 billion kg by the end of this century.

People are waiting to see if the wisdom of scientists and the power of science and technology can open up a road to water-saving agriculture in China.

### **Dual-Track Price System Continues in Grain Management**

40060355a Beijing NONGMIN RIBAO in Chinese  
20 Jan 89 p 1

[Commentary by staff commentator: "To Strengthen Grain Control, We Should Uphold the Dual-Track System"]

[Text] At present and for sometime to come, China should implement the dual-track system of contract procurement and market regulation in buying, selling, and pricing grain. This system can guarantee that the state controls a definite amount of grain and also give proper consideration to peasants' interests. It is a better choice under current conditions.

What is worth noticing is that a tendency to overemphasize centralized control and ignore market regulation has appeared in our society. Some places issue grain procurement quotas under different names in addition to the procurement quota of state contract. The provincial, prefectural, and county levels each add a few percent to such quotas. By doing so, they have "taken away" most of the grain which the state left for peasants to dispose of and substantially reduced peasants' benefits from market regulation. Peasants refer to them as "second procurements." Furthermore, they have closed grain markets for a prolonged period of time and allowed only state-run commercial departments to monopolize the business of buying and selling grain at negotiated prices and earn lucrative profits by taking advantage of the monopoly condition. In these places, the dual-track grain system has come to the point that it "exists only in name but not reality." A few places have gone all the way back to buying and selling all grain in a unified manner.

Sometime ago, many people thought that the prices of contracted procurement were set too low and that the dual-track system dampened peasants' enthusiasm for growing grain. Now it looks like that although peasants are not happy about contracted procurement, they can accept it as a state-assigned task as long as they are given

a clear explanation. They said, "This portion of grain is not perfectly reasonable, but we don't complain about it. In the old society, we had to pay 'imperial grain and state taxes.' In the new society, carrying out grain procurement contracts is our duty to the country." What the peasants complain most about and cannot accept is that after fulfilling grain procurement contracts they are not allowed to freely exchange the surplus grain at market price. Therefore, instead of saying that the dual-track system has dampened peasants' enthusiasm for growing grain, we should say that failure to genuinely carry out the dual-track system has done so.

Some comrades said that because grain production has declined this year and market supply is rather insufficient, we have no choice but to strengthen control. It is of course necessary to strengthen control. The question is how to do it. What is the goal of control? Do we want to change it from disorderly to flexible or from flexible to rigid. As we understand it, strengthening control primarily means conscientiously implementing the dual-track system. By no means should it mean the other way around. In management, we should combine control and decontrol. Decontrol does not mean to let go; nor does control mean to stifle. Buying and selling all grain in a unified manner is inappropriate and impossible. In management, we should take care of both the state and peasants. This is a principle which we must uphold. If we encroach upon peasants' interests to seek the state or departmental interests, we would eventually harm the state interests. We should remember past experiences and lessons.

Some comrades said that because the difference between the contract procurement and market prices of grain was too big, it would be impossible to fulfill the task of contracted procurement without closing the market. As an interim measure, closing the market to fulfill the task of grain contract procurement cannot be considered unreasonable. But there is no reason why the market should remain closed after the state assigned grain procurement task is basically fulfilled. Peasants should be allowed to sell their surplus grain at market prices. This is of great significance to facilitating the regulation of grain supply at present, relieving tension, removing obstacles that prevent peasants from fulfilling their procurement contracts, and stabilizing enthusiasm for growing grain in the future.

Some comrades wonder why we don't just let state grain departments buy peasants' surplus grain at market price. Why do we have to open the market? Comrades who hold such a view probably do not understand that under the condition of closed market and monopolized operations, the market would fall short of buyers and sellers, and it would be very difficult to form fair prices that can genuinely reflect the supply and demand relation. Without fair prices to reflect the supply and demand relation, "buying and selling at market price" would be very hard to do. The above analysis concerns only peasants selling surplus grain. If we take into consideration the fact that

China has 60 to 70 million workers, merchants and other kinds of floating population, who live on the grain they purchased from the market, we would see even better how important it is to open the market.

Would opening up the market cause grain prices to fluctuate violently? Many comrades worry about this. As a matter of fact, opening up the market can create many favorable factors. For instance, it can form fair prices, which can help peasants overcome their reluctance to sell their grain, put more surplus grain on the market, and thus increase commodity supply. It can eliminate the "monopoly prices" of grain producing areas and the "panic prices" of marketing areas and help lower the overall level of market prices. If we could see these favorable factors, we would not be worried. Practice has also proved this point. Some localities have recently opened up their markets. Their grain price has declined instead of increasing.

The dual-track system is an important measure for the reform of procurement of farm and sideline products. It is an important way for China's rural areas to transfer from a natural economy to a commodity economy. The ultimate goal of procurement work of farm and sideline products in China is to transfer from the single-track system of unified purchases and sales to the single-track system of a planned market economy. This is a course of transition. Currently, conditions are not ripe for a complete transition to market regulation. It takes a fairly long period of time to do so. Therefore, to strengthen grain control, we must not negate the dual-track system. If we do, we may run counter to the reform and go back to the way it was. This would inevitably dampen peasants' enthusiasm for growing grain.

### Jiangxi Food Prices

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[Article by Cao Zehua 2580 3419 5478, Wang Xiaodong 3769 2556 2639, and Hu Ping 5170 1627: "Investigation and Study of 10 Years of Price Reform for Agricultural Products in Jiangxi Province"]

#### [Text] I. The Development of Price Reform for Agricultural Products in Jiangxi Province

The 10-year price reform for agricultural products in Jiangxi Province has, generally speaking, experienced two phases, a phase of adjustments and a phase of decontrols.

The first phase (1978-1984) was primarily one of adjustments, the core of it was large increases in the state procurement prices for agricultural products. In the latter half of 1978, procurement prices were raised from 4.55 to 70.45 percent for 23 items, among them soybeans, rapeseed oil, tea, tangerines, lotus seed, and handmade paper. In 1979, procurement prices were

raised from 5.45 to 50 percent for 35 primary agricultural products, among them cereals, edible oil, cotton, bamboo, and live pigs. Above-quota delivery prices for grain were increased from 30 percent to 50 percent. During 1980 to 1984, further "minimal adjustments" for some agricultural products were made; soybean prices were raised 50 percent in 1981, prices for oil-bearing crops were increased 30 percent, cotton prices were raised, in 1980 and 1984, 10.44 and 12 percent, respectively, and prices for fir timber and pine logs were raised 52.38 and 33.33 percent, respectively. At the same time as these price adjustments were carried out, trading was allowed at "negotiated" prices, following the market, in sesame seed, green beans, red beans, and other such secondary food grains and oil-bearing crops, and there was a successive loosening of prices for agricultural products of categories 2 and 3 for quantities for above-quota procurements by the state.

The second phase (1985 to the present) is a phase of simultaneous adjustments and decontrols, with primary emphasis on decontrols. The system of state-assigned quotas of procurements was changed in 1985 to a system of purchases by contracts. For grain purchases and marketing it was a double-track system of "one lot rigid, one lot flexible." The procurement price of grain was changed from the different types of compulsory quota prices and above-quota delivery prices to prices at the "inverse 3:7" price parity. As a consequence, a double-track system of prices for one and the same product was established, namely government fixed prices for the amount designated for procurement by the state, and, for the rest, prices regulated by the market. At the same time, prices were repeatedly decontrolled for such important means of production and means of livelihood as live pigs, vegetables, and timber from collective forests. To conform with the new situation of our strategy for coastal development, prices were deregulated from this year on for grain, oil, and sugar used in industry, prices and subsidies on top of prices were increased for state procurement for wheat, corn, vegetable oil, tea, jute, bluish dogbane, and sugar cane, adjustments were made in the prices for some nonstaple foods, such as pork, large reductions were made in the obligation to shift from negotiated to parity prices for grain, the plan quota for marketing grain was reduced, the procurement price was raised in case of shifting from negotiated prices to parity prices, the obligation to deliver up live pigs was abolished, and for border counties and municipalities the application of a more flexible pricing policy was continued.

The reform of the last several years has importantly changed the price structure and marketing methods for agricultural products. Looking at the purchasing and marketing methods, we see that there are presently three patterns: One is complete procurement exclusively by the state, i.e. having the state monopolize all trading, as, for instance, in cotton, medicinal herbs, etc. A second pattern is the double-track system, i.e. "one lot rigid, one lot flexible," as for grain, edible oil, etc. The third

pattern is complete decontrol. Looking at the price structure, we see that there are also three types: state-determined prices, state-guided prices, and market-adjusted prices. In 1987, the number of agricultural products for which procurement prices were under the control of provincial or higher authorities was reduced from 120 to 58 (of which only 15 are items for which the state retains pricing authority, and 43 are items of state-guided pricing). Agricultural products for which sales prices would be controlled have been reduced from 103 to 51 (of which only 22 are items for which the state determines prices, and 29 are items of state-guided pricing). The following are the proportions of the three pricing patterns in the total amount of agricultural products procured by the state. The proportion of state-determined prices declined to 26.6 percent, and the proportions of state-guided pricing and market-adjusted prices increased to 29.9 and 43.6 percent, respectively.

## II. A Basic Evaluation of the Price Reform for Agricultural Products During the Past 10 Years

An analysis of the price reform for agricultural products of Jiangxi Province during the past few years reveals the following special characteristics:

1) There was a huge increase in the volume of agricultural products during the last few years, but fluctuations of supply and demand in the market have intensified.

Following the 3d plenum of the 11th CPC Central Committee, agricultural production in Jiangxi rapidly increased. Comparing 1987 with 1978, grain production increased 38.8 percent, cotton increased 179.3 percent, cured tobacco 53.8 percent, jute and bluish dogbane 191.6 percent, ramie 4,169 percent, fruit 496.5 percent, live pigs brought for sale 86.5 percent, poultry eggs 181 percent, aquatic products 281 percent, and tea 91.4 percent. It would be reasonable to assume that there would be no problem about market supplies. However, at the same time as agricultural production greatly increased, the foodstuffs supply situation in the cities became increasingly strained, and prices rose steeply, so that ration tickets had to be reintroduced for many items. Where was the problem? The inability of production to keep up with demand is an important cause, but the problems in the area of circulation and consumption must also not be overlooked. For a long time past, the policy of keeping foodstuff prices low and procurement prices for agricultural products also inordinately low, had, as a policy, the effect of restraining production and stimulating consumption, which aggravated the supply-demand fluctuations in the market.

2) Large Price Increases Over the Whole Range of Agricultural Products, Yet Inordinately Low Prices for Major Agricultural Products

During the period from 1978 to 1987, the overall prices for agricultural products in Jiangxi rose 116.5 percent, which is an average annual increase of 9 percent, higher

than the national figure for the same period. However, price rises were uneven for different kinds of agricultural products. The increases were small in prices for major agricultural products to which the "double-track" system was applied, and large in prices for deregulated agricultural products. For instance, bamboo prices increased 361.7 percent, aquatic products 157 percent, products of poultry and livestock 135.3 percent, vegetables 236.95 percent, and the disparity between parity prices of decontrolled products and state determined prices widened. Computed at mixed procurement prices, comparing 1984 with 1987, the parity between grain and ramie rose from 1:7.31 to 1:10.06; the parity between grain and timber from 1:0.22 to 1:0.32, the parity between grain and citrus fruit from 1:0.95 to 1:1.88, the parity between grain and fresh eggs from 1:4.88 to 1:6.01. The widening price disparity between the various agricultural products caused prices for major agricultural products, such as grain, cotton, edible oil, to be "depressed," and directly affected the returns from the production of various agricultural products to differ widely. (See Table 1)

Table 1

Products	1987 Pure Returns Per Mu After Tax Decreases	(unit: yuan) Ratio of Pure Returns to Cost (%)		
		1984	1987	1987 to 1984 Decreases and Increases
Early season rice	41.6	46.68	42.32	-4.36
Rapeseed	-7.09	52.24	-12.04	-66.28
*Peanuts	100.58	65.85	105.45	39.64
Cotton	121.52	53.75	55.55	1.8
*Ramie	189.05	83.71	65.91	-17.8
Sugarcane	257.7	101.21	112.18	10.97
*Oranges	2,030.21	181	332.50	150.5
Qimen black crude tea	66.59	64.96	40.38	-20.58
* Decontrolled products				

The table reveals that agricultural products with state-controlled prices had per mu net returns after tax that were much lower than in the case of decontrolled items. The ratio of net returns to costs, in the case of primary agricultural products, such as cereals, edible oils, etc., furthermore, shows a downward trend.

3) Foodstuff Prices Continue To Move Up, But Foodstuff Consumption Is Rapidly Expanding

Between 1978 and 1987, the Jiangxi index of retail prices for social commodities rose 44.7 percent, i.e. at an average annual rate of 4.2 percent, while the index for food prices rose 65.7 percent, i.e. at an average annual rate of 5.8 percent. Among these items, the index for nonstaple foodstuffs rose 88.3 percent, i.e. at an average

annual rate of 7.3 percent. However, during the same period, expenditure of the urban population on "eating" increased 80.9 percent, bank deposits rose 14 times, a net 4,387 million yuan, and cash in the hands of the people remained still as high as 345 million yuan.

The major cause for this peculiar phenomenon is that too many welfare policies were contractually undertaken. Citizens do not spend much on housing, they have free medical service, and daily necessities are in large measure subsidized by the state. In 1987, the subsidies throughout the province for cereal and edible oil alone have been growing year by year. (See Table 2)

Table 2

Years	Subsidies to Consumers	Subsidies to Business Sector	(Unit: million yuan)	
			Total	1987 to 1985 Annual Increase/Decrease (%)
1985	70.032	30.51	100.542	
1986	106.302	13.62	119.722	
1987	110.501	21.02	131.521	30.8

A welfare-type consumption system on the one hand greatly stimulates consumption. The proportions of expenditure on "eating" within the total consumption expenditure of the urban population throughout the province during the years from 1980 to 1987 were 59.57, 59.58, 60.4, 61.6, 59.33, 56.04, 55.65, and 57.65 percent, for a long time higher and not lower than the Engel coefficient. On the other hand, it created a strong dependence of the urban population on the state, and made it difficult for them to realize that their economic endurance is by far greater than their psychological endurance.

4) In earlier years, the price parities between industrial and agricultural products gradually narrowed, but in recent years the price parity between the means of production and the major agricultural products continuously widened.

During the years from 1978 to 1987, the price parity between industrial and agricultural products throughout the province decreased 37 percent. However, if we examine this by phases, we see that during the phase of adjustments prior to 1984, the price parity between industrial and agricultural products was reduced to a great measure, mainly because prices for agricultural products were raised, while the prices of industrial products for agricultural use were essentially held at the level of the 1960's. During the phase of decontrols after 1984, the scope of adjustments to prices for means of agricultural production exceeded the extent of adjustments which the state effected in the prices for major agricultural products, so that prices for cereal, cotton, and edible oil displayed an annual declining tendency, compared with the prices for chemical fertilizer. (See Table 3)

Table 3

	(unit: yuan/ton)		1985/1987 increases (%)
	1985	1987	
Chemical fertilizer	300.00	490.7	63.5
Cereal procurement	452.29	542.77	20
Edible oil	285.98	542.77	19.2
Cotton lint	3,266	3,712	13.6
Cereal/fertilizer	1.51	1.11	
Edible oil/fertilizer	0.97	0.70	
Cotton/fertilizer	10.88	7.56	

The price scissors between industrial and agricultural products that were obviously closing in the years between 1979 and 1984, were newly opening after 1984. In 1986, prices for agricultural products were 16.16 percent below value, that means an expansion of 1.26 percent compared to the 14.9 percent figure for 1983.

5) Price increases for agricultural products have been on a large scale, but intermediary links swallow much of it and thus reduce the benefits that should have gone to the peasants.

In 10 years of reform, general price indices for agricultural products of Jiangxi Province have gone up to an extent that is not only above the increases for retail goods for the entire province during the same period, but also higher than the nationwide price indices for agricultural products for the same period. However, the benefits from these price increases are not altogether reflected in the incomes of the peasants. According to the corrective calculations of relevant departments, during 1979 to 1987, increases in prices should have benefited the peasants throughout the province to the amount of 2.18 billion yuan, or a per capita average of 76.36 yuan. If we deduct from this sum the added expenditures due to rises in prices for means of production and means of livelihood, the per capita benefit would have been 9.49 yuan, or an annual average of about 1 yuan.

Where did the benefit from the price increases go? The problem arises from the great number of intermediary links in the purchasing and marketing of agricultural products. Certain staple items among agricultural products seem to demand a price that appears not at all low, but what the peasants actually receive is not much, because the benefits from increased prices are to a great part lost along the distribution links. Taking the recent purchase and marketing prices of timber as an example, compared with 1984, the time prior to decontrol, the purchase prices for each cubic meter of fir and pine rose 110.9 and 66.7 percent, respectively, the marketing prices were raised 416.2 and 237 percent, respectively, the difference between buying and marketing prices had increased 1,089.7 and 422.7 percent. That means that the additional income of the forestry-working peasant from the increase in the purchasing price amounts to only one-fifth of the increase of the marketing price, the other four-fifth benefits from the price increases are lost

along the intermediary links. According to our investigation, the purchasing and marketing of live pigs has to pass six intermediary links (i.e. from the peasant to the village foodstuffs station, the transfer station of the county company, the meat commune federation slaughter house, the cold storage depot, the wholesale establishment, and to the retail shop). The absolute value lost among the intermediary links is almost equal to the purchasing price of the live pig. The gross difference is as much as 96.9 percent, while there would be a gain of from 15 to 20 percent in the gross difference if the peasant would slaughter the pigs himself and if there would be a direct contact between producer and consumer.

6) Prices for agricultural products have been gradually increased, but restraints have arisen in the inadequate state of market development.

On the one hand the state-run commercial system is huge and cannot possibly reform all by itself, and distribution through "main channels" is ineffectual. After market decontrols, the share of state-run trade in the marketing of agricultural products has declined. Comparing 1987 with 1984, the proportion of commercial departments in purchases has declined from 73.4 percent to 57.9 percent. After market decontrols, some state-run commercial departments will find it difficult to go on. In 1986, the number of enterprises among supply and marketing cooperatives that operated at a loss reached 308, which is 13.4 percent of all supply and marketing cooperatives, and their losses amounted to 7.48 million yuan, an increase of 103.8 percent over 1985. Among these, 106 were "empty shell cooperatives" with insufficient assets to cover their debts; they are 4.6 percent of the total number of supply and marketing cooperatives. After live pig trade had been decontrolled, losses of state-run foodstuff departments have increased. In 1986, losses were incurred by all the 11 prefectural and municipal companies throughout the province, and out of the other 79 companies, 54 had incurred losses, accounting for 68.35 percent. Of the 1,186 units with independent accounting, 49.24 percent incurred losses. In 1987, financial subsidies to foodstuff departments throughout the province amounted to 21.02 million yuan, an increase of 54.3 percent over 1986.

On the other hand the infrastructure for distribution is poor, and market functions cannot be fully exercised. Fifty-five percent of the marketplaces are not covered, and there are only 16 wholesale markets throughout the province, not even as many as in the city of Changsha. Even the provincial capital of Nanchang has no decent wholesale market for agricultural products. In 1987, transactions on the provincial wholesale markets for agricultural products accounted for only 1.36 percent of all the trade on comprehensive markets. The markets are poorly equipped and cannot fully exercise all market functions. If much produce is coming in, there is not enough room for storage, and if not enough produce has

come in, nothing can be supplied, which situation is the cause for abrupt market fluctuations in agricultural products within short times.

7) Government responsibility for market regulation has increased, but its regulation and control methods are hardly appropriate.

Relinquishing price controls for agricultural products has not diminished the responsibility of governments at all levels for market regulation. Due to the fact that changes have occurred in the target of regulation and control, also in scope and means, the relevant departments, still following the traditional patterns of regulation and control, will not only not achieve the purpose of market stability, but at times even, to the contrary, further aggravate fluctuations. For instance, in 1985 and 1986, when prices for ramie looked good, governments at all levels vigorously called on the masses to grow ramie, so that by 1987, ramie production throughout the province had increased 2.5 times compared with 1986, but the market price took a deep plunge, declining from 7.5 yuan to 1.35 yuan per jin. At that time, the relevant departments lacked regulation and control measures to avoid or shift the risk, so that the peasants suffered an economic loss. For ramie alone, the peasants throughout the province had a loss of over 400 million yuan, a loss of 14 yuan in average per capita income, which accounted for 42 percent of that year's pure increase in income.

### III. Fundamental Ideas on Further Deepening Price Reform for Agricultural Products

Price reform for agricultural products has now reached a phase in which we have now two systems, the old and the new, one waxing and one waning. Price reform for agricultural products should be further promoted by acting at the right time, properly sizing up the situation, differentiating according to products concerned, and proceeding in different stages. Inaction in the reform of agricultural prices would harm not only the material interests, but also the goodwill of the peasants, which would be an extremely detrimental factor for the deepening of the rural reform. However, looking at the present complex situation, we see that for the more immediate future, the reform of agricultural prices can only proceed by starting out from the realities, and combining decontrols, adjustments, controls, and administrative management. What needs to be adjusted must be adjusted, what needs to be deregulated must be deregulated, and what needs to be controlled must be controlled. Attention must be paid to combine price reform with improvement of the economic environment and with rectifying the economic order, and to coordinate this work with a reform of the circulation organization and of the purchasing and marketing patterns. The efforts of about 5 years should be directed toward establishing a new order of circulating agricultural products.



1) Price reform of staple agricultural products to be accomplished by product types and in appropriate stages.

Meat, poultry, eggs, and other nonstaple foodstuffs show great elasticity in consumption and should be made the breakthrough points in price reform. Products that have already been decontrolled must by all means remain decontrolled, and we must consolidate past reform achievements. Products which have already been decontrolled but still require consolidation, should be further decontrolled, based on a stable foundation. Further reforms are required in the production and marketing system, by integrating production, supply, and marketing, while at the same time the development of production bases should be energetically promoted, which would help avoid fluctuations.

Cotton, ramie, sugarcane, tobacco, and other crops of industrial raw materials have a strong regional character, and easily become the subjects of regional blockades. Energy should be directed toward evolving a mechanism for the development of cooperation between industry and agriculture. To avoid causing "big battles," for certain products, such as cotton, unified purchasing is already being carried out, but it is necessary to adjust prices correspondingly, to grant subsidies on top of prices, or adopt a method of having industry supplement agriculture by having factories return some part of their profits to the agricultural sector. At the same time, we must perfect the methods of purchasing and marketing, promote direct transactions between industry and agriculture, reduce the intermediary levels, and stabilize relations between production and consumption.

In the case of cereals, which occupy a large area and are in a decisive position, it is necessary to proceed in stages, in proper order and step by step, so as to make a smooth and steady transition. First, raise prices for fixed quota purchases and have them gradually approach market prices. Second, gradually abolish the obligation to shift from negotiated to parity prices and to disallow level by level the increase of norms for shifting from negotiated to parity prices. Third, make efforts to enliven the "flexible lot," determine rational guideline prices for negotiated purchases, and have the peasants get a larger share of the profits.

## 2) Accelerating the Buildup of a Market Mechanism

(1) Continue promoting the reform of the state and cooperative commercial system, and strengthen main channel circulation capacity.

In state-run commerce it is necessary to further perfect business on a contractual basis or to institute a shareholding system of operations to improve business capabilities. It is particularly necessary to exploit the advantages with regard to capital, equipment, network outlets,

and personnel, so as to actively participate in the competition. With regard to the relation between the government and the state-run commercial and industrial enterprises, it is necessary to separate business operations of state-run commercial enterprises from regulatory functions, to have the enterprises concentrate their energy on successfully accomplishing their internal reforms and on participation in market competition, to clearly distinguish the scope of subsidies, administrative expenditure for the state-run commercial system, losses due to a too high circulation expenditure, institute a system of contractual responsibility for subsidies, have the state bear responsibility for losses due to price restrictions or storage expenses as means of government intervention, but for all other business losses all subsidies should be abolished.

As to the reform of the supply and marketing cooperatives, it is necessary to revert to a form of a "people-run" system, but at the same time to further strengthen the internal business management mechanism, enliven business operations, launch on a broad scale joint operations of supply and marketing cooperatives together with peasants, and by comprehensive and joint business operations raise the economic returns, work for one's own development, while also supporting the peasants, so that the cooperatives will become an intermediary force which the peasants can truly rely on.

(2) Encourage and support the peasants in organizing themselves for participation in circulation.

Since last year, peasants intending to take part in circulation met with certain obstacles. Some localities, under certain pretexts, willfully set up checkpoints, collected fees, charged fines, and thereby brought down quite a few specialized households and integrated enterprises. As long as they maintain discipline and obey the law, peasants engaged in selling and transporting agricultural products must not be restricted as to the types of products, quantities, and specifications. They should be allowed to take advantage of regional differences, differences of products, or the quality produced elsewhere, to sell and ship their products, so as to equalize shortages and surpluses. If peasants require funds, in order to be able to take part in circulation, banks should support them with loans, and also start and undertake remittance settlements. For business operations by peasants, one agency is to issue the licenses, and one agency is to collect the fee, in order to prevent different levels of checkpoints to be set up and duplication of the collections of fees. Special attention should be given to launch group-type circulation organizations, to raise the extent to which peasants may organize for participation in circulation.

(3) Improving market structure, perfecting the market system.



First, trade centers for agricultural products should be effectively instituted. Following the large-scale development of commodity production, trade in agricultural products must certainly not continue to stagnate at the initial stage of trading on agricultural markets in small batches of products on hand. It is necessary to set up large-scale trading centers for agricultural products to satisfy the need for trading on the margin between wholesale and retail prices and trading in futures, arrive at handling produce in large quantities, and to iron out contradictions in the production-consumption process as between busy and idle times, bumper crops and crop failure, and in respect to quantities. Second, the matter of holding country fairs for the sale of agricultural product should be effectively attended to. In addition to improving the management and operation of currently held country fairs for agricultural products, new country fairs should be arranged for, and the establishment of country fairs for agricultural products should in particular be added to developments now being carried out in smaller cities and towns. Third, the number of retail markets should be increased. The present outlets of the rural commercial network are insufficient. In many places peasants have difficulties doing their buying and selling. There is an urgent need to increase the outlets of the commercial network. Apart from establishing more retail outlets of state-run trade, cooperative trade, township and town trade, more individual shops and small retail establishments should be set up in order to further develop the retail markets.

(4) Liberalizing policies, courageously enliven a variety of forms of trading.

According to the principle of reducing commodity circulation links, accelerating turnover, and keeping costs low, we should devote much time and energy on enlivening a variety of trading patterns. We should develop direct transactions between agriculture and industry, promote direct contacts between producer and consumer, establish a stable relation between factory and the sources of agricultural raw materials, and develop patterns of direct communications between city and countryside, also promote joint operations of agriculture and commerce, establish a producer-consumer relation between market and producing areas, promote forms of markets attracting the households and production and consumption complementing each other, and evolve a production-consumption form of individual producers working separately but joining together for unified marketing. We may also develop for widespread use agency arrangements for purchasing and marketing, and institute buying and selling on credit, as well as trading on forward contracts.

3) Establishing and Perfecting a Mechanism for Macroeconomic Regulation and Control, Creating an Excellent Market Environment.

(1) Establishing sound market laws and regulations, rectifying market order.

For products that have already been decontrolled, administration and guidance have to be strengthened, prescribing small commodity price adjustments under a reporting system, and the strict enforcement of a reporting system. We must earnestly straighten out and rectify all circulation links, and as far as possible reduce and eliminate the repercussions of market fluctuations on the production and prices of agricultural products and other primary products. We must rectify market order, resolutely suppress and take strong measures against such illegal activities as willfully driving prices up, hoarding and speculation, buying up whole lines of products for speculation, and profiteering.

(2) Reforming the taxation and profit-retention systems, radical solution of the problem of regional blockades.

Under the current system of public finance, we want to build up a nationwide unified market for agricultural products and oppose any kind of regional blockade, but we also want to have considered the problem of how to appropriately assure economic benefits for the local levels, and preserving the enthusiasm of local governments for support of production and for development of the commodity economy. We may allow the counties, as the units in charge, to collect a limited amount of "production fund" from merchants outside the region in question, when these merchants enter the region to buy agricultural staple products, while exports of all products from the region shall be completely free. The starting point and amounts of this "production fund" collection may be determined uniformly for the whole province. The funds thus collected shall be centrally administered and applied by the county, and to be used to expand reproduction.

(3) Reforming and perfecting the current consumption policy, reducing synchronous shock waves in the market.

The shortcomings of the current consumption policy are the circulation subsidies and expenditure of a welfare-type, which in many respects still accompany the supply system. This not only impedes market development, but also fosters irrational consumption, which in turn aggravates food shortages. It is, therefore, a basic point in reforming the consumption policy to render consumption commodity-oriented. First, we must accelerate the reform of the housing system and the system of free medical service, broaden the area of consumption, and change the abnormal structure of having foodstuff expenditure account for an inordinately large proportion of the total expenditure. Second, we must establish a market for private investors, develop various types of shareholding economies, open the road for production, guide the people to invest capital in production, and transform consumption funds into production funds. Third, we must prohibit government agencies, enterprises, mass organizations, and other such units to organize foodstuff supplies at cheap prices through other than market channels, and must assist and encourage

staff and workers to practice proper ways of consumption. We must explore the possible establishment of self-control mechanism to stop "eating at public expense." We must resolutely stop the unhealthy tendency of using public funds for feasts and drinking parties, and must lower all motivation for group consumption.

(4) Establishing a risk reserve fund with appropriate differentiations and step by step.

A risk reserve fund should be established by product categories and step by step, selecting at the start products with little supply-demand elasticity, i.e. those which easily lead to fluctuations. For instance, we should first set up a live pig and vegetable risk reserve fund and a ramie risk reserve fund, to be later expanded to cover other products. As to the source for these funds, a part may be derived from the "hidden subsidies" used at the intermediary links, another portion may be contributed by public finance, by processing enterprises, by commercial enterprises, and by the peasants, some money may also be wrung out from provinces, counties, prefectures, and villages, so that we should have many channels contributing at many different levels. After accumulation of the funds, a special department or unit shall be

designated to manage it properly, use it in a productive way, and have it contribute to greater production, ensure supplies, even out prices, and even out shortages and surpluses.

(5) Establishing bases for agricultural products, strengthen construction of market infrastructure.

To stabilize the production-consumption relation, it may be considered to establish commodity production bases of a certain proportion and suitable capacity concentratedly within particular economic regions. In building up circulation facilities, full consideration must be given to build them up at the same pace as the infrastructure is built up. At present, it is urgently necessary to build up modern circulation facilities as quickly as possible, such as cold storage warehouses, as well as storage and equipment to keep agricultural products fresh. We must permit and promote industrial enterprises that use agricultural products as their raw materials to cooperate with peasants in establishing jointly a new type of purchasing-marketing relation in a coordinated production-supply-marketing system, in jointly investing in the buildup of the infrastructure, and in establishing stable and long-term purchase and marketing bases.

**Surprise Factor in Contemporary Limited Warfare**  
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[Article by Peng Weixin 1756 4850 2450: "Elementary Discussion of Several Points of Change in the Surprise Factor in Contemporary Limited Warfare"]

[Text] Surprise is the accumulative result of using actions the enemy does not anticipate to quickly accomplish a plan of battle. Since WW II, the surprise factor has become a major characteristic in the early days of a war. How to accomplish and fully utilize the surprise factor in war as well as how to destroy and weaken the opposition's attempts at accomplishing surprise have also become important tasks of academic research. Beginning in the seventies, for a great many reasons, war conditions and war patterns have changed greatly, with accompanying changes in the methods and characteristics of warfare's surprise factor.

First of all, the questions of when the war will start is no longer a major factor in creating surprise—war has gone from "liable to break out at anytime" to being more and more precisely predictable.

Among all the conditions leading to surprise in war, surprise at the onset of hostilities has historically always been recognized as the most important. Since the beginning of WW II, warmakers for the most part have used "starting the war when the enemy least expects" as their major method of seizing the strategic initiative and bringing the wars to a speedy conclusion. Recently, however, the situation has changed. In many limited wars—especially some contemporary limited wars and flare-up incidents participated in by some militarily strong countries—there was no great surprise factor analogous to the degree of modernity seen in their military operations. On the contrary, there has been a restoration of the publicly-declared-war and pre-designated-time-of-attack start of a war in vogue prior to "round one." Taking the American military's second surprise attack against Libya as an example of a "most typical contemporary war act," the timetable prior to the surprise attack clearly demonstrates this point.

On April 6, 1986, America learned that Libya had directly planned and carried out the bombing of the West Berlin La Belle discotheque on the previous day. That same afternoon, the White House declared its intention of undertaking military action against Libya. On April 8th, the American aircraft carriers Coral Sea and America sailed into central Mediterranean Sea waters. On April 9th, Libyan leader al-Qadhafi declared that he and his senior officers had formulated a military plan to deal with the most recent American threat. On April 11th, Reagan sent a special envoy to England, France, and other Western European allied countries in an attempt to seek a concerted military effort against Libya. Following suit, al-Qadhafi warned that, if necessary, he would retaliate against all of

Southern Europe's cities. On April 14th at 9 am, al-Qadhafi declared on radio: "We are ready for combat. If America has the audacity to raid Libya, then we will make her pay an even heavier price than she did in the Vietnam War." That same afternoon at 5 pm, Reagan said: "Al-Qadhafi has already chosen war. We must firmly answer with same." On April 15th at 2 am, the surprise attack formally began.

The principal reasons why these highly modern wars do not accomplish surprise in the realm of time are:

1. In the situation of deterrence being much more important than actual combat, surprise at the time of war's outbreak is seemingly insignificant. Under contemporary conditions, deterrence has two meanings. The first is to achieve the goal of thwarting an enemy's military operations through a show of force. During the 1982 Anglo-Argentine Falkland Island War, the English military's day to day actions, all of which were prominently publicized—from the creation of a wartime cabinet and the organization of a naval task force to the sending of troops into the warzone—had the obvious purpose of intimidating the Argentinians. During the war, the Argentinian navy almost did not dare to fight, and the English military held the naval initiative for the entire war. Another important meaning of deterrence is to prevent the intervention of a third party's military in order to keep the war "limited."

2. The intense seeking of public opinion support caused by the pressures of peace has caused surprise at the outbreak of wars to disappear. The power of peace has increased at the same time as the power of war. Opposition to war has become the most common standpoint and political position of nations and people in the world today. Therefore, even a superpower must seek, by every possible means, reasons and excuses to justify dispatching troops to undertake military action against a sovereign state. Thus, during the 1982 Anglo-Argentine Falkland Island War, England used the excuse that Argentina was the first to dispatch troops to occupy the Falkland Islands and had "violated" English sovereignty, and with great show dispatched her "righteous" army.

3. The "alliance" nature of war and modern communications methods make war preparations very difficult to keep secret. In the wake of changes in the development of world economies and politics, alliances of a wide variety have become one of basic characteristics of international relations because of the mutual impact of economic development and the mutual interrelationships of political interests on the international scene. Modern wars are, in reality, just wars of alliances. The addition of advanced, modern communications to this alliance-type warfare makes it very difficult for any warmaker to completely guard the news of his war preparations. This is especially so when carrying out war with non-neighboring countries.

Secondly, an important method of creating surprise is still to launch the main attack from the direction that the enemy least expects it. When carrying-out this "surgical-strike" surprise attack against an important objective, surprise directly determines war's outcome.

In past wars, selecting for the main directions of attack those directions the enemy least anticipates has also been an important method for creating effective surprise. During WW II, there were many successful battles of this nature. An example of this is when Fascist Germany attacked France, their main direction of attack was from the Ardennes Forest, which the French army least expected. Their ingenious outflanking of the strong French military positions on the Maginot Line effected a strategic surprise. Selecting as the main directions of attack those that the enemy least expects is still one of the important methods for creating surprise in contemporary limited wars. When the American military invaded Grenada, they were determined to carry out the principal attack from Point Salines at the southernmost tip of the island to Fort Frederick. But they first used a battalion of troops at the Pearls airport in the northern sections of the island to launch the attack. Exactly 36 minutes later, the main force (six battalions) made a surprise air landing at Salines airport on the southern tip of the island.

In the wake of the contemporary daily improvement in the modernization of war methods, the style of war has changed due to the impact of changes in the development of military science and technology and international politics and economics. Adopting a "surgical strike" surprise attack against an enemy's main target in order to realize a limited strategic goal has progressively become one of the principal forms of contemporary limited warfare. Its specific expression is based on the following two considerations:

1. Through careful selection of an important objective and an effective surprise attack, the strategic situation can be changed in one fell swoop, forcing the enemy into a passive position. Targets selected for a surprise attack were formerly primarily military targets chosen with a view towards overall victory in the war. Today, because the surprise attack itself can be seen as an independent act of war directly linked to an international political struggle, one can select important targets of strategic interest to both sides or other specifically selected targets of attack so as to achieve a strategic objective with a single stroke.

2. Using the high-speed mobility of a combined attack force in an operation creates a potentially great surprise against the opposition. Many developed countries' armies already have the ability to rapidly engage in battle and carry out surprise attacks at distances of over one thousand kilometers. In the several "surgical strike"

wars of recent years, surprise attacks have all started from more than one thousand kilometers away. In various situations, the sudden attack in itself has elements of surprise.

Thirdly, the utilization of advanced technology weapons and new methods of war has become a principal element in the creation of the surprise factor in contemporary limited warfare.

In June, 1941, during the initial period of the Soviet Union's Self-Defense War, Fascist Germany brought about strategic surprise through use of the "blitzkrieg" invasion of the Soviet Union. Besides the German army's adoption of various methods to conceal their plans and the mistakes in the Soviet's policy judgements regarding the situation, a principal reason for the realization of the surprise factor was the German army's initial concentration of large numbers of tank groups at the main charge [zhutu 0031 4499] directions. The success of the war method of carrying out high-speed, great-depth assaults in actual combat caused the Soviet army to be caught unprepared.

In June, 1982, during the initial period of the Lebanese-Israeli War, the Israeli army's surprise attack against the unprepared Syrian army's air defense missile positions in the al-Biqqa Valley totally destroyed the Syrian army's 19 missile systems in just 6 minutes without any Israeli loss. One of the principal reasons for the achievement of this operational surprise was the Israeli army's clever utilization of war methodology to catch the Syrians unprepared.

These two war examples clearly show that during the initial period of wars, the sudden use of new weapons or the use of new war methods the enemy least expects can both achieve the surprise factor against the opposition. But the use of advanced technology weapons and new methods of war to achieve the surprise factor in contemporary limited warfare has a number of clear differences in comparison with the actions and characteristics of past warfare.

1. The utilization of advanced technology weapons and new methods of war can independently achieve the strategic surprise factor. In past periods of war, most of the clever uses of war methods and the uses of new models of weapons to achieve surprise were secondary factors playing auxiliary roles. They could not be separated from the selection of strategic attack time and main attack direction to independently achieve strategic surprise. Under contemporary conditions, however, the situation is not the same. On the one hand, as a result of the rapid development of military science and technology and the continuous emergence of new technology weapons and equipment, the available selections and combinations of battle methods and patterns have also continuously increased. On the other hand, under contemporary conditions, general information about the time of a war's outbreak, the place, and/or plans are

usually known to the two belligerents prior to the actual fighting, thus making the use of new weapons and the utilization of new war methods a requirement to achieving surprise. Therefore, the strategic initiative necessary to rapidly realize one's war aims is gained through the use of new technology weapons and through the ingenious means and methods adopted to wage war where the enemy least expects it. This makes them even more important than in past wars and transforms them into the principal elements for achieving surprise.

2. The intent of the surprise achieved through the use of advanced technology weapons and the utilization of new methods of war is not the same as in past wars. Under contemporary conditions, the conflict of the two belligerents waging war is not only between the visible guns and troops attacking, but even more importantly in the electromagnetic field and in the overall effectiveness of

command, control, communications, and intelligence systems. One of the important guiding ideologies for warmaking of some countries in contemporary limited warfare is the creation and full exploitation of differences in technologies against opponents through the use of advanced technology weapons and clever war tactics. In this type of warfare, the surprise achieved through the clever adoption of war methods and the sudden use of advanced technology weapons is not solely for the purpose of causing the enemy to make a momentary mistaken judgement and not give him time to recapture his loss of initiative, but rather it is to deprive him of his power to effectively react from the very start until such time as we accomplish our strategic plan. This is the fundamental difference in the sudden use of new weapons and the utilization of new methods of war in the initial war period from past warfare.

**Factional Positions on Basic Law**  
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[Article by Hsiao Yu-chi 5618 3842 3875: "The Many Phases of the Basic Law Drafting Committee"]

[Excerpt] Page through the newspapers and all you see is article after article containing news about the Basic Law Drafting Committee plenary session's approval of the political mainstream proposals. One cannot help but have an oppressive feeling. If one says that the mainstream proposals suggested by the Drafting Committee political sub-group in November 1988 caused a political tide that the people of Hong Kong debated hotly, then the mainstream proposals that the Drafting Committee Plenary session passed in January 1989, which froze the political issue for at least half a year, was no less a counter tide.

In order to understand why the Drafting Committee plenary session approved the mainstream proposals, one has to go back to the situation following the enlarged conference sponsored by the Draft Committee. When this conference was convened in December, although no revision was made of the mainstream proposals that had been so fiercely attacked by the democracy-loving faction, Chinese officials issued clear signals that China intended to revise the mainstream proposals at the Drafting Committee plenary session, and that the views of moderate groups would be very seriously considered.

After the signal had been given that the views of moderate groups would be considered, reactions differed. The democratic faction continued its resistance to the mainstream proposals, carrying out a marathon hunger strike. Although the members wished in their bones that the moderate faction's views would be accepted, since that would be a step toward democracy after all, they could not appear to approve the moderate views if they were to avoid having people say that they had abandoned their principles.

Naturally, the moderate faction was greatly encouraged, and some of its leaders were very pleased with themselves, because even though people in the democratic faction also wanted to encourage them privately to make more proposals, they would still be praised to the skies. At this juncture, the moderate faction began to pay attention to holding more discussions among its nine constituent groups in order to consolidate its position. Since a rather great distance separated them from the views of the 89-man industrial and commercial vocational advisory council, they halted further discussions with them.

Changes in the situation could not help but irritate the 89. The Chinese high regard for the views of the moderate faction, and the brush-off by the moderate faction, made them want to toughen their stance, and they made vigorous efforts to lobby the Drafting Committee. First,

they met with the Drafting Committee in Hong Kong, after which they went to Beijing to present a full statement to officials there. But the Beijing officials rebuffed them gently, saying that the political proposals had to be accepted by a majority of people in Hong Kong, and that they could not give in to pressure. Their meaning was that they would not listen to the views of industrial and commercial circles alone. The 89 returned to Hong Kong disappointed, and changed to active coordination with the moderates.

With the industrial and commercial faction's position firming up, and the democratic faction continuing opposition, the moderate faction's views lost support, because it was unable to reconcile the views of the two extremes. This situation prompted the Chinese to a re-estimate of whether it should revise the mainstream proposals at the Drafting Committee plenary session.

Before the Drafting Committee plenary session convened, all parties estimated that three changes might be made in the mainstream proposals at the plenary session as follows: 1) a revision in line with the views of the moderate faction; 2) adoption of a workable formula to select some of the proposals for revision of both the moderate faction and the industrial and commercial faction in the hope of gaining favor with both; and 3) no revision of the mainstream proposals for the time being, waiting until after the second consultation before making a final decision.

Because of the tough attitude of the industrial and commercial group, even though the Chinese had made clear that they could not listen to its views alone, in fact they could not completely ignore its views either and review the mainstream proposals solely on the basis of the views of the moderate faction. Consequently, before the session, the politically knowledgeable made up their minds that the Drafting Committee plenary Session might use the formula in revising the mainstream proposals, or else it might simply not revise it at all.

When the Drafting Committee plenary session convened in Guangzhou on 9 January, the politically informed were most concerned about whether the mainstream proposals would be revised. When the Chinese officials arrived at Guangzhou on 7 January, they solved the puzzle almost at once. Drafting Committee Secretary Li Hou [2621 0683] changed the affirmative Chinese attitude toward the moderate faction following the enlarged meeting. He argued that at that time all that had been said was that the views of the majority should be given serious attention, not that the views of the moderate faction would be given serious attention, and one cannot say entirely that the moderate faction is the majority. He indicated that revision of the mainstream proposals could not be done in a single direction. Although Li Hou said that changes for a revision of the mainstream proposals were about 50-50, his attitude made people feel that the Chinese were in no hurry to revise the mainstream proposals at this time.

At this point, the Drafting Committee plenary session resembled a play for which the ending is already known. Despite some low spirits and nothing worth seeing or hearing, it still had to go on being performed. During the first 2 days of the session, attention focused on the session agenda and voting procedures. Although the rules of the game are extremely important, in particular the necessity for a two-thirds majority of all members to vote on each article of the Basic Law (draft), which aroused no small amount of controversy, nevertheless, procedural things weary people.

It was only when the time limit approached for proposing a revision to the plan that the atmosphere became a little tense. The democratic faction hoped to propose the 190 plan in revision of the mainstream proposals, but the outcome was a foregone conclusion. Talk was limited to personalities. Finally, the only one who could be found to sign his revised proposals, except for Basic Law Drafting Committee members Szeto Wah [Ssut'u Hua 0674 1778 5478] and Martin Lee [Li Chu-ming 2621 2691 6900], was Cheng Cheng-hsun [6774 2973 6064], who is adept at papering over differences. They failed to meet the requirement that five people jointly sign a plan revision, so the revision died aborning.

As for the draft plan of the moderate faction and the 89 members of the industrial and commercial faction, an unexpected turn occurred. The moderate faction had four recommendations for revision, including 1) senior administrative officials to be elected in accordance with democratic procedures; 2) deletion of the seat reserved for a religious figure on the senior administrative official election committee; 3) advance holding of a general election while the second session of administrative officials are in office to decide how the political system is to develop; and 4) increasing by one-third the number of generally elected seats during the start up phase of the Legislative Council. Wu Wei-yung [6762 4850 1661] of the 89-man group also proposed two plan revisions, including: 1) nomination of senior administrative officials using the two track system, namely either nomination by members of the 100-man election committee, or nomination by an election committee; and 2) the Legislative Council to be composed of a three-way mix, namely seats to be filled through election by major electoral bodies in addition to those elected through a general election and election by functional groups [business/finance, professionals, labor, social services, and religious organizations]. The time for filling the seats through a general election was to be increased to one-half should be delayed until the fourth session.

A difficulty appeared in the person of T'an Hui-chu [6223 1920 3796] of the drafting committee. Before the session, the moderates split their reform proposals to get the needed joint signatures; however, they were able to obtain only four, instead of the requisite five, signatures on their proposal to increase the number of generally elected seats to one-third. The Progressive Association is one of the moderate factions; however, its chairman,

T'an Hui-chu, was not one of the signatories because she hoped to get a seat in the Legislative Council elected by the general election bodies. Later on, after much prodding by the moderates, T'an Hui-chu also reluctantly agreed to be a signatory. At the same time, she agreed to the reform plan of the group of 89 in an effort to work both sides of the street.

However, the method for making a motion passed by the session ruled that the drafting committee could not simultaneously sign two or more reform plans for a single article. Thus, T'an Hui-chu had to make a choice. She said that it made no difference to her which one she signed, and that she would sign whichever one did not have enough signatures. In the end, she chose Wu Wei-yung's proposal, but the strange thing was that Wu Wei-yung's proposal had six signatories, so an additional one was not needed. T'an Hui-chu then signed the proposal of the group of 89 in a possible reflection of her personal inclination. The moderate faction was also able to get Cheng Cheng-hsun to sign its proposal, finally getting the five signatures it needed.

At the same time, Louis Cha [Cha Chi-min 2686 3444 3046], who is well-known for his conservative views, also quietly offered his own revision proposal, setting up four barriers to universal balloting. His proposal required that a general election be approved by half of the Legislative Council, that senior administrative officials concur, that the National People's Congress [NPC] approve before an election could be held, and finally that it be approved by 30 percent of qualified voters before the motion could be passed. Without doubt, this proposal increased the difficulty of holding a general election, and reduced the chances of a general election.

On the day before the the plenary session was to vote on the revision plans, special arrangements were made for speeches to the session in which the drafting committee could introduce its reform plans. Speeches before drafting committee sessions are usually rather humdrum, containing nothing substantial; however, Wu Wei-yung's speech on this occasion was an exception. He lavished great praise on the group of 89 as being of exceptionally high caliber, controlling social resources and employment opportunities, and as being different from other groups. The draft of his speech really made people feel a little embarrassed.

Wu Wei-yung had refused to provide the draft of this speech to reporters in advance. He said that reporters had not quoted from his speeches in the past, so he did not want to give them the draft of his speech on this occasion. It was only after the reporters got hold of the draft later on that they found out the kind of speech he had given. Wu Wei-yung said afterward that his speech had not been intended for the ears of people in Hong Kong; it was directed at the Basic Law Drafting Committee to make sure that the drafting committee did not disregard the views of industrial and commercial circles

in Hong Kong. He had used "election campaign" methods in making the speech to demonstrate their representativeness and their sincerity. If people in Hong Kong heard it, they would be bound to grumble and react against it, but industrial and commercial circles in Hong Kong had never acted in a conceited way, so if anyone was to be blamed, he should be blamed himself.

Wu Wei-yung's speech was just a humorous interlude in an otherwise dreary meeting, and the real high tide was still to be the session's decisions on draft proposals and the Basic Law (draft). Because the drafting committee stressed its accountability to the NPC, a high standard of approval by two-thirds of the membership had been set, i.e., a minimum of 37 votes. Such a rather high requirement meant that the Chinese members were not entirely certain that most articles would pass. Before balloting began, Deputy Secretary General Lu Ping [7627 1627] said jokingly that if not all of the articles were passed, he would hang himself. This joke possibly reflected a little of the tension they felt.

On the morning of the 13th, the session got around to deciding on the reform proposals. Before the session, Cha Liang-yung [2686 5328 6978] made a pre-match forecast. He predicted passage of the moderate faction proposals, except that the proposal for a general election before the second session might run into trouble. He made a HK\$100 bet with Li Chu-ming about this. In the end, only 10 of 51 revision proposals passed. The proposals of the moderate faction and of Wu Wei-yung were not accepted by the session, and Cha Liang-yung also lost HK\$100 to Li Chu-ming.

To everyone's surprise, Louis Cha's proposal also found favor, becoming the only fairly important reform proposal about the political system to be passed. This reform made the mainstream proposals more conservative in an objective sense. To quote Li Hou, this was a reform in a certain direction that was naturally bound to provoke a strong response.

Naturally, Li Hou also knew where the problem lay, so he made a "fence mending" announcement in which he said that the passage of Louis Cha's proposal surprised him. He had hoped that the mainstream proposals would either not be revised or else entirely revised, but he did not want this revision alone; consequently, he had voted to reject Louis Cha's proposal.

No matter what, the passage of Louis Cha's revision reflected to one extent or another the conflict among the Chinese officials. They held a reserved attitude about a general election, so they approved the adding of limitations to a general election; however, they also really did not want revisions to the political system plan that went in only a single direction since they wanted to avoid arousing greater opposition. Because of these contradictory feelings, the mainland members did not reach a

unified consensus, and surprisingly numerous members from Hong Kong also supported this proposal. As a result, this proposal was passed with 38 votes.

On the afternoon of 13 January, the session decided on the draft plan, including the political system mainstream proposals. It was evident that the mainstream proposals would receive majority support; the only question was whether it would get a two-thirds majority. If it did not get a full 37 votes, this fact would be clearly indicated by future events, and revisions would certainly be made after the second consultation.

As Louis Cha pointed out, some Hong Kong members of the drafting committee were still drumming up support for their position at noon, hoping that members of the drafting committee would cast rejecting votes so that the mainstream plan would not pass in order to enable future revisions. But the results disappointed them. The mainstream proposals squeaked by, annex 1 about the way in which senior administrative officials are to be selected receiving 39 votes, and an annex 2 about the composition of the Legislative Council receiving 37 votes.

During the morning voting, 52 people were present, but in the afternoon voting, 53 people attended providing a margin of one. Some members of the drafting committee noted that without the margin, not all of the mainstream proposals could be passed. But these words had to be taken back; 37 assenting votes were cast without the one person margin being required. However, this showed an element of luck was involved in the passage of the mainstream proposal. The Chinese did not completely manipulate the outcome of the contest. Considering the closeness of the numbers, it would have been very difficult to insure that something unexpected might not happen.

In this regard, one vote of the drafting committee provided a short breathing spell for the mainstream proposals. The Chinese knew very well that what with wide diversity of views of the various factions, no revision of the mainstream proposal would be preferable, because revision might very possibly mean even further revisions. It would be better to apply the brakes quietly. In order to account to the NPC, they also had to have a two-thirds majority passage of the mainstream proposals. But they also acted wisely, frequently saying that the mainstream proposals could be revised after the second period of consultation. These words virtually became a catch phrase after the vote. After passage of the mainstream proposals, Li Hou repeated them five or 10 times each day.

Drafting committee passage of the mainstream proposal occasioned a counter tide. Henceforth, at least until conclusion of the consultation period, there would be no further revisions of the mainstream proposal. This would give all parties a cooling off period during which they could assess their gains and losses.



The 89-man group may be said to have lost substance but gained an image during the drafting committee session. The 89-man group made four major proposals, an important one of which was a 50 percent voting rate for votes in a general election, but now the passage of Louis Cha's proposal calling for 30 percent approval eclipsed their proposal. Naturally, the 89-man group laughed to itself. One fly in the ointment was that Wu Wei-yung's speech hurt their image, and the 89 members expressed their dissatisfaction with Wu Wei-yung's brazen campaign style oratory. But image is image, and the 89-man group's consistently tough tactics have really brought the drafting committee away from the moderate faction to their side.

The moderate faction may be said to have lost out on its proposals while gaining sympathy. The moderate faction groups tried to obtain harmony, yet not one of its four ideas was accepted by the drafting committee. Even one idea utterly lacking substance, the one requiring that senior administrative officials be elected by democratic procedures, was unable to gain passage because of technical problems in its presentation. They worked hard at coordinating only to be derided by Wu Wei-yung for being humiliated by the group of 89 in having a 12 hour meeting with them. That the morale of the moderate faction has declined goes without saying, but at least they won the sympathy of public opinion. Furthermore, long-range prospects remain good for the moderate factions,

because their views are middle-of-the-road. If the drafting committee does not want to split Hong Kong society, finally views similar to those of the moderate faction will become a Hobson's choice.

The democratic faction may be said to have lost in fact while gaining a moral victory. When the Cha proposal for revision of the Basic Law first appeared, it caused an uproar in public opinion, and the democratic faction availed itself of the situation to conduct a drumbeat of opposition, which carried the day for a time. However, now that the drafting committee has already passed the proposal, and the two municipal government bureau elections are near at hand, democratic faction opposition to the mainstream proposal has become a spent force that can go nowhere.

Furthermore, in looking ahead to the next period of consultation, all the various forms of opposition of the democratic faction have been exhausted. Rallies, parades, hunger strikes, burning of the Basic Law, and finally even the burning of a straw man symbolizing the drafting committee—just what further fierce actions can express their dissatisfaction? Democratic faction adherence to democratic ideals with no change at all in their revision proposals will ultimately lead to their sinking into inaction. But if the democratic faction slightly alters its position, thereby gaining a more democratic political system for the people of Hong Kong, will a large section of the public then condemn them for having abandoned "democracy"? These questions genuinely deserve to be carefully pondered by those who are concerned about the development of Hong Kong democracy. [passage omitted]